

Consolidated financial statements and independent auditors' report

**International Financial Advisors – KSC (Closed)**

**and Subsidiaries**

**Kuwait**

31 December 2012

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# Independent auditors' report

To the shareholders of  
International Financial Advisors – KSC (Closed)  
Kuwait

## **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of International Financial Advisors – Kuwaiti Shareholding Company (Closed) and Subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards applied in Kuwait and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of International Financial Advisors and Subsidiaries as at 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards applied in Kuwait.

**Report on Other Legal and Regulatory Matters**

In our opinion, proper books of account have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 25 of 2012 and the Company's articles of association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012 nor of the Company's articles of association, as amended, have occurred during the year that might have had a material effect on the business or financial position of the Company.

We further report that, during the course of our audit, we have not become aware of any material violations, during the year, of the provisions of Law No.32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations.

Abdullatif M. Al-Aiban (CPA)  
(Licence No. 94-A)  
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Ali A. Al-Hasawi  
(Licence No. 30-A)  
of Rödl Middle East  
Burgan – International Accountants

## Consolidated statement of income

|   | Notes    | Year ended<br>31 Dec.<br>2012<br>KD | Year ended<br>31 Dec.<br>2011<br>KD |
|---|----------|-------------------------------------|-------------------------------------|
| <b>Income</b>   |          |                                     |                                     |
| Interest and similar income   | 7        | 590,047                             | 901,352                             |
| Management fees and commission income   | 8        | 805,600                             | 883,641                             |
| Dividends income  | 9        | 805,271                             | 1,249,112                           |
| Net income from hoteliers and related services  | 10       | 3,702,007                           | 4,903,921                           |
| Net gain/(loss) on investments  | 11       | 2,111,318                           | (2,133,754)                         |
| Gain on partial sale of asset classified as held for sale   | 24 (a)   | 2,038,160                           | -                                   |
| Net gain on investment properties   | 12       | 582,285                             | 4,165,443                           |
| Gain on sale of properties under development  | 13       | 258,867                             | 10,032,657                          |
| Share of loss from associated companies   | 27       | (1,109,406)                         | (2,210,737)                         |
| Loss on sale of shares in associated companies  | 27 (a,c) | (3,296,348)                         | -                                   |
| Income on default of customers to the terms in the sale contracts of the sold residential units                             | 14       | 818,176                             | 6,031,424                           |
| Other income  | 15       | 1,473,289                           | 1,767,524                           |
|   |          | <b>8,779,266</b>                    | <b>25,590,583</b>                   |
| <b>Expenses and other charges</b>   |          |                                     |                                     |
| Interest and similar expenses   | 16       | 8,412,709                           | 11,904,650                          |
| Staff and related costs   |          | 4,569,561                           | 5,723,984                           |
| Other operating expenses  |          | 7,304,990                           | 14,007,432                          |
| Impairment loss in value of investment in an associated company   | 27.1 (a) | 5,000,000                           | 1,333,499                           |
| Impairment loss in value of available for sale investments  | 25       | 1,411,190                           | 10,805,366                          |
| Impairment loss in value of goodwill  | 28       | -                                   | 332,982                             |
| Write off of due from related parties balances  | 22       | 1,586,605                           | 720,907                             |
| Impairment loss in value of properties under development  | 29       | 1,036,575                           | -                                   |
| Impairment loss in value of property, plant and equipment   | 31       | 3,202,371                           | -                                   |
| Depreciation  | 31       | 1,491,243                           | 2,295,810                           |
|   |          | <b>34,015,244</b>                   | <b>47,124,630</b>                   |
| <b>Loss before contribution to KFAS, National Labour Support Tax, Zakat provision and taxation on overseas subsidiaries</b> |          |                                     |                                     |
|   |          | <b>(25,235,978)</b>                 | <b>(21,534,047)</b>                 |
| Taxation on overseas subsidiaries   |          | 845,806                             | 1,096,777                           |
| Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)  |          | -                                   | (3,021)                             |
| Zakat provision   |          | -                                   | (3,357)                             |
| National Labour Support Tax (NLST)  |          | -                                   | (8,392)                             |
| <b>Loss for the year</b>  |          | <b>(24,390,172)</b>                 | <b>(20,452,040)</b>                 |
| <b>Attributable to :</b>  |          |                                     |                                     |
| Owners of the parent company  |          | <b>(24,895,259)</b>                 | <b>(20,742,338)</b>                 |
| Non-controlling interests   |          | <b>505,087</b>                      | <b>290,298</b>                      |
| <b>Loss for the year</b>  |          | <b>(24,390,172)</b>                 | <b>(20,452,040)</b>                 |
| <b>BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY</b>                                    |          |                                     |                                     |
|   | 17       | <b>(37.16) Fils</b>                 | <b>(30.89) Fils</b>                 |

The notes set out on pages 9 to 57 form an integral part of these consolidated financial statements.

## Consolidated statement of comprehensive income

|  | Year ended<br>31 Dec.<br>2012<br>KD | Year ended<br>31 Dec.<br>2011<br>KD |
|--|-------------------------------------|-------------------------------------|
| <b>Loss for the year</b>   | <b>(24,390,172)</b>                 | (20,452,040)                        |
| <b>Other comprehensive income/(loss):</b>                                |                                     |                                     |
| Available for sale investments:  |                                     |                                     |
| - Net change in fair value during the year                               | 5,215,866                           | (5,959,368)                         |
| - Transferred to consolidated statement of income on sale                | 877,208                             | (568,609)                           |
| - Transferred to consolidated statement of income on impairment in value | 1,411,190                           | 10,805,366                          |
| Share of other comprehensive income of associates                        | 315,393                             | 980,870                             |
| Exchange differences on translation of foreign operations                | (181,523)                           | (3,672,642)                         |
| <b>Other comprehensive income</b>  | <b>7,638,134</b>                    | 1,585,617                           |
| <b>Total comprehensive loss for the year</b>                             | <b>(16,752,038)</b>                 | (18,866,423)                        |
| Attributable to:   |                                     |                                     |
| Owners of the parent company   | (17,257,125)                        | (19,156,721)                        |
| Non-controlling interests  | 505,087                             | 290,298                             |
|  | <b>(16,752,038)</b>                 | (18,866,423)                        |

*The notes set out on pages 9 to 57 form an integral part of these consolidated financial statements.*

## Consolidated statement of financial position

|  | Notes | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|--|-------|-----------------------|-----------------------|
| <b>Assets</b>  |       |                       |                       |
| Cash and cash equivalents  | 18    | 14,896,081            | 7,721,094             |
| Investments at fair value through profit or loss                     | 19    | 5,999,369             | 19,428,740            |
| Receivables and other debit balances                                 | 20    | 23,202,182            | 24,802,425            |
| Loans receivable   | 21    | 3,395,109             | 4,575,878             |
| Due from related parties   | 22    | 4,741,193             | 5,416,036             |
| Trading properties   | 23    | 5,466,261             | 5,683,758             |
| Asset classified as held for sale                                    | 24    | 8,015,422             | -                     |
| Available for sale investments                                       | 25    | 45,250,188            | 41,926,305            |
| Investment properties  | 26    | 30,463,337            | 32,233,502            |
| Investment in associated companies                                   | 27    | 37,192,511            | 60,491,843            |
| Goodwill   | 28    | 48,678,399            | 48,679,192            |
| Properties under development   | 29    | 150,272,839           | 147,065,367           |
| Capital work in progress   | 30    | 122,156,490           | 103,680,584           |
| Property, plant and equipment  | 31    | 33,712,624            | 38,206,303            |
| <b>Total assets</b>  |       | <b>533,442,005</b>    | <b>539,911,027</b>    |
| <b>Liabilities and equity</b>  |       |                       |                       |
| <b>Liabilities</b>   |       |                       |                       |
| Payables and other credit balances                                   | 32    | 72,698,466            | 83,268,171            |
| Due to related parties   | 22    | 15,775,238            | 4,087,875             |
| Term loan from a related party                                       | 33    | 9,943,636             | 11,663,636            |
| Borrowings   | 34    | 192,075,856           | 187,167,736           |
| Advances received from customers                                     | 35    | 140,030,130           | 131,670,784           |
| <b>Total liabilities</b>   |       | <b>430,523,326</b>    | <b>417,858,202</b>    |
| <b>Equity</b>  |       |                       |                       |
| <b>Equity attributable to the owners of the parent company</b>       |       |                       |                       |
| Share capital  | 36    | 72,000,000            | 72,000,000            |
| Share premium  | 36    | 11,973,061            | 11,973,061            |
| Treasury shares  | 36    | (32,869,551)          | (32,896,967)          |
| Statutory and voluntary reserves                                     | 37    | 61,408,598            | 61,649,505            |
| Cumulative changes in fair value                                     | 25    | 11,913,806            | 4,094,149             |
| Foreign currency translation reserve                                 |       | (4,678,905)           | (4,497,382)           |
| Accumulated losses   |       | (33,084,165)          | (6,721,619)           |
| <b>Total equity attributable to the owners of the parent company</b> |       | <b>86,662,844</b>     | <b>105,600,747</b>    |
| <b>Non-controlling interests</b>                                     |       | <b>16,255,835</b>     | <b>16,452,078</b>     |
| <b>Total equity</b>  |       | <b>102,918,679</b>    | <b>122,052,825</b>    |
| <b>Total liabilities and equity</b>                                  |       | <b>533,442,005</b>    | <b>539,911,027</b>    |
| <b>Fiduciary accounts</b>  | 38    | <b>81,929,620</b>     | <b>78,763,582</b>     |

Saleh Saleh Al-Selmi  
Chairman and CEO

Talal Jassim Al-Bahar  
Vice Chairman

*The notes set out on pages 9 to 57 form an integral part of these consolidated financial statements.*

## Consolidated statement of changes in equity

|   | Equity attributable to the owners of the parent company |                        |                          |   |  |   |                             |                      |  | Total<br>KD        |
|---|---|------------------------|--------------------------|---|--|---|-----------------------------|----------------------|--|--------------------|
|   | Share<br>capital<br>KD                                  | Share<br>premium<br>KD | Treasury<br>shares<br>KD | Statutory<br>and<br>voluntary<br>reserves<br>KD | Cumulative<br>changes in<br>fair value<br>KD | Foreign<br>currency<br>translation<br>reserve<br>KD | Accumulated<br>losses<br>KD | Sub –<br>total<br>KD | Non-<br>controlling<br>interests<br>KD |                    |
| <b>Balance as at 1 January 2012</b>                   | 72,000,000  | 11,973,061             | (32,896,967)             | 61,649,505                                      | 4,094,149                                    | (4,497,382)   | (6,721,619)                 | 105,600,747          | 16,452,078                             | 122,052,825        |
| (Loss)/profit for the year                            | -   | -                      | -                        | -   | -  | -   | (24,895,259)                | (24,895,259)         | 505,087                                | (24,390,172)       |
| Other comprehensive income/(loss)                     | -   | -                      | -                        | -   | 7,819,657                                    | (181,523)   | -                           | 7,638,134            | -                                      | 7,638,134          |
| Total comprehensive income/(loss) for the year        | -   | -                      | -                        | -   | 7,819,657                                    | (181,523)   | (24,895,259)                | (17,257,125)         | 505,087                                | (16,752,038)       |
| Purchase of treasury shares                           | -   | -                      | (8,888,631)              | -   | -  | -   | -                           | (8,888,631)          | -                                      | (8,888,631)        |
| Sale of treasury shares                               | -   | -                      | 8,916,047                | -   | -  | -   | -                           | 8,916,047            | -                                      | 8,916,047          |
| Loss on sale of treasury shares                       | -   | -                      | -                        | (240,907)                                       | -  | -   | -                           | (240,907)            | -                                      | (240,907)          |
| Loss arising on partial disposal of subsidiary shares | -   | -                      | -                        | -   | -  | -   | (1,467,287)                 | (1,467,287)          | -                                      | (1,467,287)        |
| Net change in non-controlling interests               | -   | -                      | -                        | -   | -  | -   | -                           | -                    | (701,330)                              | (701,330)          |
| <b>Balance as at 31 December 2012</b>                 | <b>72,000,000</b>                                       | <b>11,973,061</b>      | <b>(32,869,551)</b>      | <b>61,408,598</b>                               | <b>11,913,806</b>                            | <b>(4,678,905)</b>                                  | <b>(33,084,165)</b>         | <b>86,662,844</b>    | <b>16,255,835</b>                      | <b>102,918,679</b> |



## Consolidated statement of changes in equity (continued)

| Equity attributable to the owners of the parent company |                     |                     |                       |  |  |  |   |                   |                                 |              |
|---|---------------------|---------------------|-----------------------|--|--|--|---|-------------------|---------------------------------|--------------|
|   | Share capital<br>KD | Share premium<br>KD | Treasury shares<br>KD | Statutory and voluntary reserves<br>KD | Cumulative changes in fair value<br>KD | Foreign currency translation reserve<br>KD | Retained earnings/ (accumulated losses)<br>KD | Sub – total<br>KD | Non-controlling interests<br>KD | Total<br>KD  |
| <b>Balance as at 1 January 2011</b>                     | 72,000,000          | 11,973,061          | (32,818,291)          | 61,649,505                             | (1,164,110)                            | (824,740)                                  | 14,137,282                                    | 124,952,707       | 18,972,025                      | 143,924,732  |
| (Loss)/profit for the year                              | -                   | -                   | -                     | -                                      | -                                      | -  | (20,742,338)                                  | (20,742,338)      | 290,298                         | (20,452,040) |
| Other comprehensive income/(loss)                       | -                   | -                   | -                     | -                                      | 5,258,259                              | (3,672,642)                                | -   | 1,585,617         | -                               | 1,585,617    |
| <b>Total comprehensive income/(loss) for the year</b>   | -                   | -                   | -                     | -                                      | 5,258,259                              | (3,672,642)                                | (20,742,338)                                  | (19,156,721)      | 290,298                         | (18,866,423) |
| Purchase of treasury shares                             | -                   | -                   | (3,297,956)           | -                                      | -                                      | -  | -   | (3,297,956)       | -                               | (3,297,956)  |
| Sale of treasury shares                                 | -                   | -                   | 3,219,280             | -                                      | -                                      | -  | -   | 3,219,280         | -                               | 3,219,280    |
| Loss on sale of treasury shares                         | -                   | -                   | -                     | -                                      | -                                      | -  | (108,066)                                     | (108,066)         | -                               | (108,066)    |
| Loss arising on partial disposal of subsidiary shares   | -                   | -                   | -                     | -                                      | -                                      | -  | (8,497)                                       | (8,497)           | -                               | (8,497)      |
| Net change in non-controlling interests                 | -                   | -                   | -                     | -                                      | -                                      | -  | -   | -                 | (2,810,245)                     | (2,810,245)  |
| <b>Balance as at 31 December 2011</b>                   | 72,000,000          | 11,973,061          | (32,896,967)          | 61,649,505                             | 4,094,149                              | (4,497,382)                                | (6,721,619)                                   | 105,600,747       | 16,452,078                      | 122,052,825  |

The notes set out on pages 9 to 57 form an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

|   | Note      | Year ended<br>31 Dec.<br>2012 | Year ended<br>31 Dec.<br>2011 |
|---|-----------|-------------------------------|-------------------------------|
|   |           | KD                            | KD                            |
| <b>OPERATING ACTIVITIES</b>   |           |                               |                               |
| Loss for the year attributable to the owners of the parent company                    |           | (24,895,259)                  | (20,742,338)                  |
| Adjustments:  |           |                               |                               |
| Net gain on investment properties   |           | (582,285)                     | (4,165,443)                   |
| (Gain)/loss on sale of available for sale investments                                 |           | (380,062)                     | 14,318                        |
| Impairment loss in value of available for sale investments                            |           | 1,411,190                     | 10,805,366                    |
| Impairment loss in value of goodwill  |           | -                             | 332,982                       |
| Impairment loss in value of investment in an associated company                       |           | 5,000,000                     | 1,333,499                     |
| Write off of due from related parties balances  |           | 1,586,605                     | 720,907                       |
| Impairment loss in value of properties under development                              |           | 1,036,575                     | -                             |
| Impairment loss in value of property, plant and equipment                             |           | 3,202,371                     | -                             |
| Loss on sale of shares in associated companies  |           | 3,296,348                     | -                             |
| Gain on sale of properties under development  |           | (258,867)                     | (10,032,657)                  |
| Gain on partial sale of asset classified as held for sale                             |           | (2,038,160)                   | -                             |
| Dividends income  |           | (805,271)                     | (1,249,112)                   |
| Interest and similar income   |           | (590,047)                     | (901,352)                     |
| Interest and similar expenses   |           | 8,412,709                     | 11,904,650                    |
| Provisions  |           | 86,115                        | 1,031,345                     |
| Depreciation  |           | 1,491,243                     | 2,295,810                     |
| Share of loss from associated companies   |           | 1,109,406                     | 2,210,737                     |
| Loss/(gain) from foreign currency translation of non-operating assets and liabilities |           | 476,850                       | (302,906)                     |
|   |           | (2,440,539)                   | (6,744,194)                   |
| <b>Changes in operating assets and liabilities:</b>                                   |           |                               |                               |
| Investments at fair value through profit or loss                                      |           | 13,429,371                    | 1,769,348                     |
| Receivables and other debit balances  |           | 1,600,243                     | 28,227,052                    |
| Loans receivable  |           | 1,101,442                     | 3,215,903                     |
| Due from related parties  |           | (911,761)                     | 3,351,859                     |
| Trading properties  |           | 217,497                       | 4,005,441                     |
| Payables and other credit balances  |           | (10,569,705)                  | (4,034,238)                   |
| Due to related parties  |           | 11,687,363                    | 663,059                       |
| Advances received from customers  |           | 8,359,346                     | 1,723,563                     |
| Cash from operating activities  |           | 22,473,257                    | 32,177,793                    |
| Dividends income received   |           | 805,271                       | 1,249,112                     |
| Interest and similar income received  |           | 590,047                       | 901,352                       |
| Interest and similar expenses paid  |           | (8,412,709)                   | (11,904,650)                  |
| <b>Net cash from operating activities</b>   |           | <b>15,455,866</b>             | <b>22,423,607</b>             |
| <b>INVESTING ACTIVITIES</b>   |           |                               |                               |
| Proceeds from sale of shares in a consolidated subsidiary                             |           | 522,590                       | 163,845                       |
| Proceeds from sale of shares in associated companies                                  |           | 5,517,682                     | -                             |
| Proceeds from sale of asset classified as held for sale                               |           | 6,149,321                     | -                             |
| Net movement on investment in associated companies                                    |           | (3,757,475)                   | 767,785                       |
| Net movement on properties under development  |           | (3,985,180)                   | (19,734,833)                  |
| Additions to capital work in progress   |           | (17,499,049)                  | (25,018,428)                  |
| Net movement on property, plant and equipment   |           | (199,934)                     | (1,048,799)                   |
| Proceeds from sale of available for sale investments                                  |           | 5,457,041                     | 14,974,837                    |
| Net movement on investment properties   |           | 2,352,450                     | (4,137,793)                   |
| Purchase of available for sale investments  |           | (1,992,395)                   | (4,007,650)                   |
| <b>Net cash used in investing activities</b>  |           | <b>(7,434,949)</b>            | <b>(38,041,036)</b>           |
| <b>FINANCING ACTIVITIES</b>   |           |                               |                               |
| Bank loans obtained   |           | 21,230,249                    | 47,642,909                    |
| Bank loans settled  |           | (17,276,657)                  | (35,926,466)                  |
| Related party loan settled  |           | (1,720,000)                   | -                             |
| Change in non-controlling interests   |           | (2,186,121)                   | (2,692,288)                   |
| Purchase of treasury shares   |           | (8,888,631)                   | (3,297,956)                   |
| Proceeds from sale of treasury shares   |           | 8,675,140                     | 3,111,214                     |
| Net movement in foreign currency translation reserve                                  |           | (679,910)                     | (8,665,372)                   |
| <b>Net cash (used in)/from financing activities</b>                                   |           | <b>(845,930)</b>              | <b>172,041</b>                |
| Net increase/(decrease) in cash and cash equivalents                                  |           | 7,174,987                     | (15,445,388)                  |
| Cash and cash equivalents at beginning of the year                                    | 18        | 7,721,094                     | 23,166,482                    |
| <b>Cash and cash equivalents at end of the year</b>                                   | <b>18</b> | <b>14,896,081</b>             | <b>7,721,094</b>              |

The notes set out on pages 9 to 57 form an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

### 1 Parent company incorporation and activities

International Financial Advisors – KSC (Closed) (“the parent company”) is a Kuwaiti closed shareholding company incorporated on 31 January 1974 under the Commercial Companies Law No. 15 of 1960 and amendments thereto. The parent company is regulated by the Central Bank of Kuwait as an investment company. The address of the parent company’s registered office is PO Box 4694, Safat 13047, State of Kuwait.

The parent company is principally engaged in providing financial advisory services, trading in local and international securities, borrowing, lending, issuing guarantees, managing investment funds and portfolios management and trading in future contracts.

On 29 November 2012 the Companies Law No. (25) of 2012 was issued by an Amiri Decree. This law is to be implemented and was effective on the date of its publication in the Official Gazette. Companies already established at the time this law comes into effect shall adjust their circumstances in accordance with the provisions of the law within six months of it coming into force and as specified in the executive regulations.

The consolidated financial statements were authorised for issue by the board of directors on ..... and are subject to the approval of the general assembly of shareholders.

The group comprises the parent company and its subsidiaries.

A) The following is a list of the significant subsidiary companies of the parent company:

| Parent company’s<br>subsidiaries and<br>percentage of ownership               | Subsidiary<br>companies   | Ownership<br>percentage in<br>subsidiary<br>companies |      | Place of<br>incorporation | Principal<br>activity                   | Establishment/<br>Acquisition<br>date |
|---|---|---|------|---------------------------|---|---------------------------------------|
|   |   | 2012  | 2011 |                           |   |                                       |
| <b>Consolidated subsidiaries</b>  |   |   |      |                           |   |                                       |
| 1) IFA Hotels & Resorts<br>Company– KSC (Closed)<br>(57.558%) (2011: 57.339%) | a) IFA Hotels & Resorts –<br>LLC (Free Zone)                    | 100%  | 100% | UAE                       | Property<br>development                 | 2003                                  |
|   | b) IFA Hotels & Resorts –<br>Jabel Ali (Free Zone)              | 100%  | 100% | UAE                       | Property<br>development                 | 2005                                  |
|   | c) IFA Hotels & Resorts<br>(SAL) Holdings                       | 51%   | 51%  | Lebanon                   | Property<br>development                 | 2003                                  |
|   | d) IFA Zimbali Hotels &<br>Resorts (Pty) Limited                | 100%  | 100% | South Africa              | Property<br>development                 | 2003                                  |
|   | e) IFA Hotels & Resorts<br>Limited                              | 85%   | 85%  | South Africa              | Hotelier and<br>property<br>development | 2003                                  |
|   | f) IFA Hotels & Resorts<br>(2) Limited                          | 100%  | 100% | Cayman Island             | Hotelier                                | 2003                                  |
|   | g) IFA Hotels & Resorts<br>(3) Limited                          | 100%  | 100% | Mauritius                 | Property<br>development                 | 2006                                  |
|   | h) IFA Fairmont Zimbali<br>Hotels and Resorts (Pty)<br>Limited. | 100%  | 100% | South Africa              | Hotelier                                | 2006                                  |
|   | i) International Property<br>Trading Holding Limited            | 100%  | 100% | British Virgin<br>Islands | Property<br>development                 | 2007                                  |
|   | j) Yotel Investment Limited                                     | 100%  | 100% | Jersey                    | Hotelier                                | 2006                                  |

## Notes to the consolidated financial statements (continued)

### 1 Parent company incorporation and activities (continued)

| Parent company's subsidiaries and percentage of ownership              | Subsidiary companies              | Ownership percentage in subsidiary companies |      | Place of incorporation | Principal activity | Establishment/ Acquisition date |
|--|-----------------------------------|--|------|------------------------|--------------------|---------------------------------|
|  |                                   | 2012   | 2011 |                        |                    |                                 |
| <b>Consolidated subsidiaries</b>                                       |                                   |  |      |                        |                    |                                 |
| 2) Seven Seas Resorts Company – KSC (Closed) (48.299%) (2011: 48.299%) | -                                 | -  | -    | Kuwait                 | Resorts            | 2003                            |
| 3) Gulf Real Estate Company –WLL (46.318%) (2011: 46.318%)             | -                                 | -  | -    | Kuwait                 | Real estate        | 2004                            |
| 4) IFA Aviation Company – KSC (Closed) (74.8%) (2011: 74.8%)           | -                                 | -  | -    | Kuwait                 | Aviation           | 2006                            |
|  | a) Deema Aviation Company Limited | 100%   | 100% | Cayman Islands         | Aviation           | 2007                            |
| 5) Radeem Real Estate Company – SAL (99.7%) (2011: 99.7%)              | -                                 | -  | -    | Lebanon                | Real estate        | 2006                            |
| 6) Dana Company – SAL (90%) (2011: 90%)                                | -                                 | -  | -    | Lebanon                | Real estate        | 2006                            |

B) The following is a listing of the group's interest in significant joint ventures which are included in the consolidated statement of financial position and consolidated statement of income on the proportional consolidation basis:

| Name and details of the joint ventures  | Country of registration/ incorporation | Participation interest |      |
|---|--|------------------------|------|
|   |  | 2012                   | 2011 |
| Interest in Tongaat Hulett/IFA Hotels & Resorts Development (the principal activity of the joint venture is property development)   | South Africa                           | 50%                    | 50%  |
| Interest in Zimbali Estates (PTY) Limited (the principal activity of the joint venture is the sale of developed property)   | South Africa                           | 50%                    | 50%  |
| Interest in Palm Golden Mile - Joint Venture (the principal activity of the Joint Venture is design, development, construction, marketing, sale of apartment and rental of shopping centers and residential apartments) | UAE                                    | 50%                    | 50%  |

### 2 Basis of preparation

The consolidated financial statements of the group have been prepared under historical cost convention except for financial assets at fair value through profit or loss and financial assets available for sale and investment properties that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD").

### 3 Statement of compliance

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) and applicable requirements of Ministerial Order No. 18 of 1990.

## Notes to the consolidated financial statements (continued)

### 4 Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those used in previous year except as follows:

#### 4.1 New and amended standards adopted by the group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

#### 4.2 IASB Standards issued but not yet effective

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first time during the period beginning at or after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

| <i>Standard or Interpretation</i>  | <i>Effective for annual periods beginning</i> |
|--|---|
| IAS 1 Presentation of Financial Statements – amendment   | 1 July 2012                                   |
| IAS 27 Consolidated and Separate Financial Statements<br>- Revised as IAS 27 Separate Financial Statements | 1 January 2013                                |
| IAS 28 Investments in Associates<br>- Revised as IAS 28 Investments in Associates and Joint Ventures       | 1 January 2013                                |
| IFRS 9 Financial Instruments   | 1 January 2015                                |
| IFRS 10 Consolidated Financial Statements  | 1 January 2013                                |
| IFRS 12 Disclosure of Interests in Other Entities  | 1 January 2013                                |
| IFRS 13 Fair Value Measurement   | 1 January 2013                                |
| IAS 32 Financial Instruments: Presentation – amendments  | 1 January 2014                                |
| IFRS 7 Financial Instruments: Disclosures – amendments   | 1 January 2013                                |
| Annual Improvements 2009-2011  | 1 January 2013                                |

#### 4.2.1 IAS 1 Presentation of Financial Statements

The amendment to IAS 1 requires entities to group other comprehensive income items presented in the consolidated statement of comprehensive income based on those:

- a) Potentially reclassifiable to consolidated statement of income in a subsequent period, and
- b) That will not be reclassified to consolidated statement of income subsequently.

The Group will change the current presentation of the consolidated statement of comprehensive income when the amendment becomes effective however, it will not affect the measurement or recognition of such items.

#### 4.2.2 IAS 27 Consolidated and Separate Financial statements – Revised as IAS 27 Separate Financial Statements

As a consequence of the new IFRS 10 and IFRS 12, IAS 27 now deals only with separate financial statements.

#### 4.2.3 IAS 28 Investments in Associates – Revised as IAS 28 Investments in Associates and Joint Ventures

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 brings investments in joint ventures into its scope. However, the equity accounting methodology under IAS 28 remains unchanged.

## Notes to the consolidated financial statements (continued)

### 4 Changes in accounting policies (continued)

#### 4.2 IASB Standards issued but not yet effective (continued)

##### 4.2.4 IFRS 9 Financial Instruments

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues.

Although earlier application of this standard is permitted, the Technical Committee of the Ministry of Commerce and Industry of Kuwait decided on 30 December 2009, to postpone this early application till further notice.

Management has yet to assess the impact that this amendment is likely to have on the consolidated financial statements of the Group. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

##### 4.2.5 Consolidation Standards

A package of consolidation standards are effective for annual periods beginning on or after 1 January 2013. Information on these new standards is presented below. The Group's management has yet to assess the impact of these new and revised standards on the Group's consolidated financial statements.

##### 4.2.5.1 IFRS 10 Consolidated Financial Statements

IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. It revises the definition of control together with accompanying guidance to identify an interest in a subsidiary. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore change the scope of consolidation. However, the requirements and procedures of consolidation and the accounting for any non-controlling interests and changes in control remain the same. Management's provisional analysis is that IFRS 10 will not change the classification (as subsidiaries or otherwise) of any of the Group's existing investees at 31 December 2012.

##### 4.2.5.2 IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments including subsidiaries, joint arrangements, associates and unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

#### Transition guidance for IFRS 10, 11, 12

Subsequent to issuing the new standards the IASB made some changes to the transitional provisions in IFRS 10, IFRS 11 and IFRS 12. The guidance confirms that the entity is not required to apply IFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also makes changes to IFRS 11 and IFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides additional relief by removing the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied.

The new guidance is also effective for annual periods on or after 1 January 2013.

## Notes to the consolidated financial statements (continued)

### 4 Changes in accounting policies (continued)

#### 4.2 IASB Standards issued but not yet effective (continued)

##### 4.2.6 IFRS 13 Fair Value Measurement

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair valued. IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to complete its assessment of their impact on the Group's consolidated financial statements.

##### 4.2.7 Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- that some gross settlement systems may be considered equivalent to net settlement.

The Amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. Management does not anticipate a material impact on the Group's consolidated financial statements from these Amendments.

##### 4.2.8 Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

Qualitative and quantitative disclosures have been added to IFRS 7 'Financial Instruments: Disclosures' (IFRS 7) relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The Amendments are effective for annual reporting periods beginning on or after 1 January 2013 and interim periods within those annual periods. The required disclosures should be provided retrospectively. Management does not anticipate a material impact on the Group's consolidated financial statements from these Amendments.

##### 4.2.9 Annual Improvements 2009-2011 (the Annual Improvements)

The Annual Improvements 2009-2011 (the Annual Improvements) made several minor amendments to a number of IFRSs. The amendments relevant to the Group are summarised below:

Clarification of the requirements for opening statement of financial position:

- clarifies that the appropriate date for the opening statement of financial position is the beginning of the preceding period (related notes are no longer required to be presented)
- addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

Clarification of the requirements for comparative information provided beyond minimum requirements:

- clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements
- requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.

## Notes to the consolidated financial statements (continued)

### 4 Changes in accounting policies (continued)

#### 4.2 IASB Standards issued but not yet effective (continued)

##### 4.2.9 Annual Improvements 2009-2011 (the Annual Improvements) (continued)

Tax effect of distribution to holders of equity instruments:

- addresses a perceived inconsistency between IAS 12 ‘Income Taxes’ (IAS 12) and IAS 32 ‘Financial Instruments: Presentation’ (IAS 32) with regards to recognising the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction
- clarifies that the intention of IAS 32 is to follow the requirements in IAS 12 for accounting for income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.

Segment information for total assets and liabilities:

- clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (i) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; (ii) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment.

The Annual Improvements noted above are effective for annual periods beginning on or after 1 January 2013. Management does not anticipate a material impact on the Group’s consolidated financial statements from these amendments.

### 5 Significant accounting policies

#### 5.1 Basis of consolidation

The financial statements of the parent company and its subsidiaries are consolidated within the Group’s financial statements. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through more than half of the voting rights. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary’s profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

When a controlling interest in the subsidiaries is disposed off, the difference between the selling price and the net asset value plus cumulative translation difference and goodwill is recognised in the consolidated income statement.



## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.2 Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued for the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

#### 5.3 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. See note 5.2 above for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. Refer to note 5.14 for a description of impairment testing procedures.

#### 5.4 Investment in associates

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Group's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.4 Investment in associates (continued)

The difference in reporting dates of the associates and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur during that period between the reporting period of the associate and the reporting period of the Group. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in the consolidated income statement.

#### 5.5 Segment reporting

The Group has four operating segments: the assets management, treasury and investments, real estate and other. In identifying these operating segments, management generally follows the Group's service lines representing its main products and services. Each of these operating segments is managed separately as each requires different approaches and other resources. All inter-segment transactions are carried out at arm's length prices.

For management purposes, the Group uses the same measurement policies as those used in its consolidated financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

#### 5.6 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is made.

##### *5.6.1 Sales of properties for development*

Revenue from the sale of properties is recognized when risk and reward related to property has been transferred to the customers. Risk and reward are transferred when legal notice is served to the customers to take the possession of the property or on actual handover to the customers.

##### *5.6.2 Cost of revenues*

Cost of revenues includes the cost of land and development costs. Development costs include the cost of infrastructure and construction. The cost of revenues in respect of sale of properties is recognised on the basis of per square feet average cost of construction. Per square feet average cost of construction is derived from total saleable area and total construction cost.

##### *5.6.3 Rental and hoteliers income*

Rental income of units in office buildings and residential buildings are recognised on an accrual basis.

Revenue from hoteliers and related services is recognised when the services are rendered.

##### *5.6.4 Interest income*

Interest income is recognised in the consolidated statement of income as it accrues, taking into account the effective yield of the asset or an applicable floating rate.

##### *5.6.5 Dividend income*

Dividend income is recognised when the right to receive the dividend is established.

##### *5.6.6 Fees and Commission*

Fees and commission income are recognised when earned.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.7 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their occurrence. Expenditure for warranties is recognised and charged against the associated provision when the related revenue is recognised.

#### 5.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and are reported as finance costs.

#### 5.9 Property, plant and equipment

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees for qualifying assets, and the borrowing costs incurred in accordance with the Group's accounting policies. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of assets, other than freehold land and properties under development over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Freehold land is not depreciated.

Building on leasehold land is depreciated over the term of lease.

Plant and Equipments, Furniture and Fixtures, Motor Vehicles and Yachts are stated at cost less accumulated depreciation and accumulated impairment losses.

The Aircraft is depreciated over a 15 years period after deducting the recoverable value estimated by professional aircraft valuers to be 85% of original value after that period.

Depreciation is calculated on a straight-line basis over the estimated useful lives as follows:

|                            |                        |
|----------------------------|------------------------|
| Freehold buildings         | 50 years               |
| Building on leasehold land | over the term of lease |
| Plant and equipment        | 5 – 7 years            |
| Furniture and fixtures     | 5 – 10 years           |
| Motor vehicles             | 4 -5 years             |
| Yacht                      | 10 years               |
| Aircraft                   | 15 years               |

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in consolidated statement of income.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.10 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

Investment properties are initially measured at cost. Subsequently, investment properties are revalued annually and are included in the consolidated statement of financial position at their fair values. These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in profit or loss within “change in fair value of investment property”.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### 5.11 Property under development

Property under development represents properties under development/construction for trade, which are stated at cost or net realisable value whichever is lower. Cost includes the cost of land, construction, design and architecture. Advances paid for purchase of properties and other related expenditures such as professional fees, project management fees and engineering costs attributable to the project are added as and when activities that are necessary to get the assets ready for the intended use are carried out. Direct costs from the start of the project up to completion of the project are accrued to properties under development. Completion is defined as the earlier of the issuance of the certificate for completion, or when management considers the project to be completed. Upon completion, unsold properties, if any are transferred to trading properties.

#### 5.12 Capital work-in-progress

Capital work-in-progress includes land which is stated at cost less impairment in value, if any. The carrying value of land is reviewed according to circumstances to make sure that there is no impairment loss in value or that the carrying value may not be recoverable. If any such indication exists and when the carrying value is declined, the value of land is written down to its recoverable amount.

Capital work-in-progress also includes the cost of construction, design and architecture, advances paid for purchase of properties and other related expenditures such as professional fees, project management fees and engineering costs attributable to the project, which are capitalized as and when activities that are necessary to get the assets ready for the intended use are in progress. Direct costs from the start of the project up to completion of the project are capitalized.

#### 5.13 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.13 Intangible assets (continued)

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement. Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if events or change in circumstances indicate the carrying value may be impaired, either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

#### 5.14 Impairment testing of goodwill and non financial assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses reduce first the carrying amount of any goodwill allocated to that asset. Any remaining impairment loss is charged pro rata to the other assets. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the asset's recoverable amount exceeds its carrying amount.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.15 Financial instruments

##### *5.15.1 Recognition, initial measurement and derecognition*

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value.

Subsequent measurement of financial assets and financial liabilities are described below.

A financial asset (or, where applicable a part of financial asset or part of group of similar financial assets) is derecognised when:

- rights to receive cash flows from the assets have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass through’ arrangement and either
  - (a) the Group has transferred substantially all the risks and rewards of the asset or
  - (b) the Group has neither transferred nor retained substantially all risks and rewards of the asset but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group’s continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated income statement.

##### *5.15.2 Classification and subsequent measurement of financial assets*

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.15 Financial instruments (continued)

##### 5.15.2 Classification and subsequent measurement of financial assets (continued)

- **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

In March 2007, the Central Bank of Kuwait (“CBK”) issued a circular amending the basis of making general provisions on facilities from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period. During the year 2008, the Central Bank of Kuwait allowed the Group to reverse the excess of general provision 1% in the consolidated statement of income, so that the amount will be transferred to the general reserve.

The Group categorises loans and receivables into following categories:

- **Loans and advances**

Loans and advances are financial assets originated by the Group by providing money directly to the borrower that have fixed or determinable payments and are not quoted in an active market.

- **Trade receivables**

Trade receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred

- **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are not subject to significant risk of changes in value.

- **Financial assets at FVTPL**

Classification of investments as financial assets at FVTPL depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are as designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.15 Financial instruments (continued)

##### *5.15.2 Classification and subsequent measurement of financial assets (continued)*

- ***AFS financial assets***

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in profit or loss. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

The Group assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in the consolidated income statement.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

##### *5.15.3 Classification and subsequent measurement of financial liabilities*

The Group’s financial liabilities include borrowings, trade and other payables.

The subsequent measurement of financial liabilities depends on their classification as follows:

- ***Financial liabilities other than at fair value through profit or loss***

These are stated using effective interest rate method. Payables and other credit balances, due to related parties, borrowings and advances received from customers are classified as financial liabilities other than at FVTPL.

- ***Trade payables***

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

- ***Borrowings***

All borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

- ***Advances received from customers***

Advances received from customers represent money received from customers towards instalments for properties in accordance with the terms of the sale agreements.



## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.15 Financial instruments (continued)

##### *5.15.4 Amortised cost of financial instruments*

This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

##### *5.15.5 Trade and settlement date accounting*

All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

##### *5.15.6 Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

##### *5.15.7 Fair value of financial instruments*

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 45.4.

#### 5.16 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued and paid up.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Statutory and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the commercial companies' law and the parent company's articles of association.

Other components of equity include the following:

- foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into KD
- Fair value reserve – comprises gains and losses relating to available for sale financial assets

Retained earnings include all current and prior period retained profits. All transactions with owners of the parent are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a meeting of the general assembly.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.17 Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity.

When the treasury shares are reissued, gains are credited to a separate account in equity, (the "treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

#### 5.18 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

#### 5.19 Foreign currency translation

##### 5.19.1 *Functional and presentation currency*

The consolidated financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the parent company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

##### 5.19.2 *Foreign currency transactions and balances*

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.19 Foreign currency translation (continued)

##### *5.19.3 Foreign operations*

In the Group's consolidated financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

#### 5.20 End of service indemnity

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date

With respect to its Kuwaiti national employees, the Group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

#### 5.21 Taxation

##### *5.21.1 National Labour Support Tax (NLST)*

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the Group after deducting directors' fees for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subject to NLST have to be deducted from the profit for the year.

##### *5.21.2 Kuwait Foundation for the Advancement of Sciences (KFAS)*

The contribution to KFAS is calculated at 1% of taxable profit of the Group in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

##### *5.21.3 Zakat*

Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

For the year ended 31 December 2012, the Parent Company has no liability towards NLST, KFAS and Zakat due to losses incurred. Under the NLST and Zakat regulations, no carry forward of losses to the future years nor any carry back to prior years is permitted.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.21 Taxation (continued)

##### *5.21.4 Taxation on overseas subsidiaries*

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate.

#### 5.22 Fiduciary assets

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in these consolidated financial statements.

### 6 Significant management judgements and estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make judgments, estimations and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### 6.1 Significant management judgments

In the process of applying the Group's accounting policies, management has made the following significant judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

##### *6.1.1 Classification of financial instruments*

Judgements are made in the classification of financial instruments based on management's intention at acquisition.

The Group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

Classification of financial assets as fair value through profit or loss depends on how management monitors the performance of these financial assets. When they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through profit or loss.

Classification of assets as loans and receivables depends on the nature of the asset. If the Group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments, the financial asset is classified as loans and receivables.

All other financial assets are classified as available for sale.

##### *6.1.2 Classification of real estate*

Management decides on acquisition of a real estate whether it should be classified as trading, property held for development or investment property.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

## Notes to the consolidated financial statements (continued)

### 6 Significant management judgements and estimation uncertainty (continued)

#### 6.1 Significant management judgments (continued)

##### 6.1.2 *Classification of real estate (continued)*

The Group classifies property as property under development if it is acquired with the intention of development.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

##### 6.1.3 *Fair values of assets and liabilities acquired*

The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

#### 6.2 Estimates uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different

##### 6.2.1 *Impairment of goodwill and other intangible assets*

The Group determines whether goodwill and intangible assets are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows (Note 5.14).

##### 6.2.2 *Impairment of associates*

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss on the Group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

##### 6.2.3 *Impairment of available for sale equity investments*

The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

##### 6.2.4 *Impairment of trade receivables*

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

##### 6.2.5 *Useful lives of depreciable assets*

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

## Notes to the consolidated financial statements (continued)

### 6 Significant management judgements and estimation uncertainty (continued)

#### 6.2 Estimates uncertainty (continued)

##### 6.2.6 Business combinations

Management uses valuation techniques in determining the fair values of the various elements of a business combination. Particularly, the fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability (see Note 5.2).

##### 6.2.7 Fair value of financial instruments

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 5.15.7).

### 7 Interest and similar income

Interest and similar income resulted from financial assets as follows:

|   | Year ended<br>31 Dec.<br>2012<br>KD | Year ended<br>31 Dec.<br>2011<br>KD |
|---|-------------------------------------|-------------------------------------|
| Financing of future trades  | 7,432                               | 33,605                              |
| Loans receivable  | 92,608                              | 130,373                             |
| Cash and cash equivalents   | 421,803                             | 540,216                             |
| Late payments by customers  | 51,437                              | 147,766                             |
| Loans to related parties  | 16,767                              | 49,392                              |
|   | <b>590,047</b>                      | 901,352                             |
| Interest and similar income on financial assets at fair value     | 7,432                               | 33,605                              |
| Interest and similar income on financial assets not at fair value | 582,615                             | 867,747                             |
|   | <b>590,047</b>                      | 901,352                             |

### 8 Management fees and commission income

|  | Year ended<br>31 Dec.<br>2012<br>KD | Year ended<br>31 Dec.<br>2011<br>KD |
|--|-------------------------------------|-------------------------------------|
| Management fees on assets under management | 228,203                             | 159,897                             |
| Fees from deposits and managing funds      | -                                   | 121                                 |
| Consulting fees from managed assets        | 577,397                             | 723,623                             |
|  | <b>805,600</b>                      | 883,641                             |

## Notes to the consolidated financial statements (continued)

### 9 Dividends income

Dividends income resulted from financial assets as follows:

|  | Year ended<br>31 Dec.<br>2012<br>KD | Year ended<br>31 Dec.<br>2011<br>KD |
|--|-------------------------------------|-------------------------------------|
| Investments at fair value through profit or loss | 398,269                             | 383,887                             |
| Available for sale investments                   | 407,002                             | 865,225                             |
|  | <b>805,271</b>                      | <b>1,249,112</b>                    |

### 10 Net income from hoteliers and related services

|         | Year ended<br>31 Dec.<br>2012<br>KD | Year ended<br>31 Dec.<br>2011<br>KD |
|---------|-------------------------------------|-------------------------------------|
| Revenue | 5,562,960                           | 7,543,907                           |
| Costs   | (1,860,953)                         | (2,639,986)                         |
|         | <b>3,702,007</b>                    | <b>4,903,921</b>                    |

### 11 Net gain/(loss) on investments

Net gain/(loss) on investments, analyzed by category for the year ended 31 December 2012 and 31 December 2011 are as follows:

|                      | 31 Dec. 2012  |  |                  | 31 Dec. 2011  |  |                    |
|----------------------|---|--|------------------|---|--|--------------------|
|                      | Investments<br>at fair value<br>through profit<br>or loss<br>KD | Available<br>for sale<br>investments<br>KD | Total<br>KD      | Investments at<br>fair value<br>through profit<br>or loss<br>KD | Available for<br>sale<br>investments<br>KD | Total<br>KD        |
| Realized gain/(loss) | 1,838,689   | 380,062                                    | 2,218,751        | 203,128   | (14,318)                                   | 188,810            |
| Unrealized loss      | (107,433)   | -  | (107,433)        | (2,322,564)   | -  | (2,322,564)        |
|                      | <b>1,731,256</b>  | <b>380,062</b>                             | <b>2,111,318</b> | <b>(2,119,436)</b>  | <b>(14,318)</b>                            | <b>(2,133,754)</b> |

### 12 Net gain on investment properties

|   | Year ended<br>31 Dec.<br>2012<br>KD | Year ended<br>31 Dec.<br>2011<br>KD |
|---|-------------------------------------|-------------------------------------|
| Realized gain/(loss) arising from sale of investment properties (Note 26.3) | 1,189,885                           | (1,299,302)                         |
| Unrealized (loss)/gain arising from revaluations ( Note 26.3)               | (607,600)                           | 5,464,745                           |
|   | <b>582,285</b>                      | <b>4,165,443</b>                    |

## Notes to the consolidated financial statements (continued)

### 13 Gain on sale of properties under development

Gain on sale of properties under development represents the revenue and the costs related to the properties under development which have been originally purchased by the group for the purpose of development and resale to customers.

|               | Year ended<br>31 Dec.<br>2012<br>KD | Year ended<br>31 Dec.<br>2011<br>KD |
|---------------|-------------------------------------|-------------------------------------|
| Sales revenue | 4,939,338                           | 30,468,623                          |
| Cost of sales | (4,680,471)                         | (20,435,966)                        |
|               | <b>258,867</b>                      | <b>10,032,657</b>                   |

### 14 Income on default of customers to the terms in the sale contracts of the sold residential units

The Government Authorities in Dubai, UAE, has agreed that the subsidiary company [IFA Hotels and Resorts – KSC (Closed)] can retain part of the advance payments received from the customers of the residential units under development which have been sold to them since these customers have defaulted on settling the remaining payments due on them in accordance with the sale contracts. The balance of the amounts retained by the subsidiary company from these advances and for which the sale contracts were cancelled has amounted to UAE Dirhams 10,767,829 equivalent to KD 818,176 (2011: amount of UAE Dirhams 79,695,245 equivalent to KD6,031,424) included in the consolidated statement of income for the year.

### 15 Other income

The other income consists of the following:

|   | Year ended<br>31 Dec.<br>2012<br>KD | Year ended<br>31 Dec.<br>2011<br>KD |
|---|-------------------------------------|-------------------------------------|
| Net Income from aviation services                 | 98,534                              | 2,828                               |
| Properties rental income                          | 3,289                               | 155,852                             |
| Gain from foreign currency revaluation            | (476,850)                           | 302,906                             |
| Net income from ticket sales and related services | 79,644                              | 105,306                             |
| Reversal of excess provision on margin loans      | 54,450                              | 101,141                             |
| Other miscellaneous income                        | 1,714,222                           | 1,099,491                           |
|   | <b>1,473,289</b>                    | <b>1,767,524</b>                    |

### 16 Interest and similar expenses

Interest and similar expenses result from the group's short, medium and long term borrowing activities. All these financial liabilities of the group are stated at amortised cost.



## Notes to the consolidated financial statements (continued)

### 17 Basic and diluted loss per share attributable to the owners of the parent company

Loss per share is calculated by dividing the loss for the year attributable to the owners of the parent company, by the weighted average number of shares outstanding of the parent company during the year after deducting treasury shares as follows:

|  | Year ended<br>31 Dec.<br>2012 | Year ended<br>31 Dec.<br>2011 |
|--|-------------------------------|-------------------------------|
| Loss for the year attributable to the owners of the parent company (KD)                  | <b>(24,895,259)</b>           | (20,742,338)                  |
| Weighted average number of shares outstanding (excluding treasury shares) (share)        | <b>669,976,861</b>            | 671,456,944                   |
| Basic and diluted loss per share attributable to the owners of the parent company (Fils) | <b>(37.16)</b>                | (30.89)                       |

### 18 Cash and cash equivalents

|   | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---|-----------------------|-----------------------|
| Bank balances and cash  | <b>15,663,190</b>     | 8,129,376             |
| Fixed deposits  | <b>229,869</b>        | 926,446               |
| Due to banks  | <b>(996,978)</b>      | (1,334,728)           |
| Cash and cash equivalents in the consolidated statement of cash flows | <b>14,896,081</b>     | 7,721,094             |

### 19 Investments at fair value through profit or loss

|                                     | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|-------------------------------------|-----------------------|-----------------------|
| <b>Held for trading:</b>            |                       |                       |
| <b>Local</b>                        |                       |                       |
| Quoted securities and managed funds | <b>1,864,880</b>      | 13,759,158            |
| Unquoted securities                 | <b>250,619</b>        | 881,592               |
|                                     | <b>2,115,499</b>      | 14,640,750            |
| <b>Foreign</b>                      |                       |                       |
| Quoted securities                   | <b>3,883,870</b>      | 4,787,990             |
| <b>Total</b>                        | <b>5,999,369</b>      | 19,428,740            |

## Notes to the consolidated financial statements (continued)

### 20 Receivables and other debit balances

|                                     | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|-------------------------------------|-----------------------|-----------------------|
| Receivables on forward contracts    | -                     | 342,619               |
| Trade receivables                   | 11,300,956            | 11,920,678            |
| Advances and prepayments            | 2,204,363             | 2,684,284             |
| Kuwait Clearing Company receivables | 182,744               | 149,544               |
| Staff receivables                   | 24,962                | 199,149               |
| Prepaid expenses                    | 1,076,653             | 664,924               |
| Advances to contractors             | 1,384,003             | 2,476,103             |
| Other miscellaneous receivables     | 7,028,501             | 6,365,124             |
|                                     | <b>23,202,182</b>     | <b>24,802,425</b>     |

### 21 Loans receivable

21.1 Loans balances and effective interest rates are as follows:

|                  | 31 Dec.<br>2012<br>KD | Effective<br>interest rate | 31 Dec.<br>2011<br>KD | Effective<br>interest rate |
|------------------|-----------------------|----------------------------|-----------------------|----------------------------|
| Consumer         | -                     | 6%                         | 55,641                | 6%                         |
| Real estate      | -                     | 6% - 10%                   | 809,020               | 6% - 10%                   |
| Margin loans     | 3,540,622             | 2% - 5%                    | 6,000,254             | 2% - 5%                    |
| Staff loans      | 17,384                | -                          | -                     | -                          |
| Loans to clients | 1,315,860             | 2% - 5%                    | -                     | -                          |
| Rescheduled      | -                     | 7% - 11%                   | 1,111                 | 7% - 11%                   |
|                  | <b>4,873,866</b>      |                            | 6,866,026             |                            |
| Provisions       | <b>(1,478,757)</b>    |                            | <b>(2,290,148)</b>    |                            |
|                  | <b>3,395,109</b>      |                            | <b>4,575,878</b>      |                            |

21.2 The movement on provisions is as follows:

|   | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---|-----------------------|-----------------------|
| Beginning balance   | 2,290,148             | 2,081,758             |
| Provision charge for the year (included in other operating expenses)            | 79,327                | 309,531               |
| Reversal of excess provision (no longer needed)                                 | (54,450)              | (101,141)             |
| Write off consumer, real estate and reschedule loans against provision balances | (836,268)             | -                     |
| Ending balance  | <b>1,478,757</b>      | <b>2,290,148</b>      |

The policy of the parent company for the calculation of the provisions for loans receivable complies in all material respects with the requirements of the Central Bank of Kuwait relating to specific and general provisions.

## Notes to the consolidated financial statements (continued)

### 22 Due from/to related parties

|  | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|--|-----------------------|-----------------------|
| <b>Due from related parties:</b>                         |                       |                       |
| United Investment Company – Portugal                     | -                     | 1,590,506             |
| Al-Bab Trading Company – WLL                             | -                     | 5,314                 |
| IFA Properties Brokerage Company                         | 449,050               | 221,319               |
| IFA Yacht Chartering (LLC)                               | 4,717,511             | 4,813,329             |
| Univest Group – KSC (Closed)                             | -                     | 149                   |
| Marasi Al Ofuq General Trading Co. – WLL                 | 1,551,746             | 1,551,746             |
| Zilwa Limited Company                                    | 1,299,928             | 1,287,647             |
| IFA Hotel Investment Co.                                 | 1,259,606             | 677,454               |
| IFA H & R – Zanzibar                                     | -                     | 474,519               |
| Istithmar Company (PJSC)                                 | 1,323,351             | 1,304,893             |
| Al Deera Holding Company – KSC (Closed)                  | 518,205               | -                     |
| Others   | 951,203               | 818,567               |
|  | <b>12,070,600</b>     | <b>12,745,443</b>     |
| Provision for doubtful debts (a & b below)               | <b>(7,329,407)</b>    | <b>(7,329,407)</b>    |
|  | <b>4,741,193</b>      | <b>5,416,036</b>      |
| <b>Due to related parties:</b>                           |                       |                       |
| IFA Zimbali H & R (Pty) Ltd                              | 1,677,891             | 65,586                |
| Al Tilal Investment Co. – WLL                            | 1,241,012             | 1,219,741             |
| International Finance Company – KSC (Closed) (Associate) | -                     | 136,474               |
| Kuwait Real Estate Company – KSC                         | 6,214,834             | 588,149               |
| Al Rana General Trading Co. – WLL                        | 709,257               | 1,282,004             |
| Kuwait Holding Co. – KSC                                 | 59,804                | -                     |
| IFA Hotels & Resorts 2 Ltd                               | 123,701               | 244,311               |
| Al Deera Holding Company– KSC (Closed)                   | -                     | 103,105               |
| IFA Consulting Services Co. – WLL                        | 150,133               | 169,170               |
| International Resorts Company – KSC (Closed)             | 160,362               | 144,718               |
| Al Dahiya Investment Co. - WLL                           | 5,318,646             | 71,624                |
| Others   | 119,598               | 62,993                |
|  | <b>15,775,238</b>     | <b>4,087,875</b>      |

(a) During the year 2010, and according to instructions of the Central Bank of Kuwait, a provision against the balances due from related parties has been calculated with a percentage of 20% on the outstanding balances as of the year end, and this provision calculated for that year has amounted to KD7,329,407 and which has been included in the consolidated statement of income for the year ended 31 December 2010, and there has been no provision calculated for the years 2011 and 2012.

(b) During the current year, old balances due from related parties amounting to KD1,586,605 (2011: KD720,907) have been written off based on estimates made by management and information available as at the date of the consolidated statement of financial position.

## Notes to the consolidated financial statements (continued)

### 23 Trading properties

23.1 Trading properties consist of:

|                                       | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---------------------------------------|-----------------------|-----------------------|
| Residential apartments in Dubai (UAE) | 329,633               | 313,444               |
| Properties in South Africa            | 5,136,628             | 5,370,314             |
|                                       | <b>5,466,261</b>      | <b>5,683,758</b>      |

23.2 The movement on trading properties is as follows:

|                                       | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---------------------------------------|-----------------------|-----------------------|
| Beginning balance                     | 5,683,758             | 9,689,199             |
| Additions during the year             | 13,247                | 296,813               |
| Charged to cost of sales              | (181,655)             | (3,010,692)           |
| Foreign currency exchange differences | (49,089)              | (1,291,562)           |
| Ending balance                        | <b>5,466,261</b>      | <b>5,683,758</b>      |

- a) The trading properties located in Dubai are represented by completed but unsold units of Souq Residence (FZE) – Trunk Residence (FZE).
- b) The trading properties in South Africa represent plots of lands purchased in South Africa for trading purposes and comprise land at cost and development expenditure related to unsold properties.

### 24 Asset classified as held for sale

- a) This represents 25.00% (2011: 41.08%) holding in Raimon Land Public Company Limited through one of its subsidiary companies. This investment has been reclassified as “held for sale” because the subsidiary Company’s management has decided to commit to a plan to sell this investment and therefore its carrying amount will be recovered principally through the sale transaction rather than through continuous use. During the current year, the Group disposed a percentage of 13.57% from its ownership in the investee for consideration of KD5,979,075 resulting in a gain of KD2,038,160. Further during the year the investee company has increased its share capital by issuing shares to certain investors, which has resulted in a dilution of the group’s share holding in the investee.

In prior years, the investment was classified as investment in associates. The fair market value of Raimon Land Public Limited’s shares is KD13,708,364 (31 December 2011: KD14,098,950).

During the subsequent period of the consolidated financial statements, the full contributions in Raimon Land Public Limited have been sold for a consideration equivalent to KD20,222,937 resulting in a gain of KD12,361,747 to be recorded in the next year consolidated income statement.

- b) During the year, the Group disposed certain share warrants received (at zero cost) from the above investee company for a consideration of KD869,540 resulting in a gain of KD869,540. This gain was recorded under realised gain on investments at fair value through profit or loss (Note 11).

## Notes to the consolidated financial statements (continued)

### 25 Available for sale investments

25.1 The available for sale investments comprise of:

|                     | <b>31 Dec.<br/>2012<br/>KD</b> | 31 Dec.<br>2011<br>KD |
|---------------------|--------------------------------|-----------------------|
| Quoted securities   | <b>3,922,223</b>               | 3,637,289             |
| Unquoted securities | <b>41,327,965</b>              | 38,289,016            |
|                     | <b>45,250,188</b>              | 41,926,305            |

Unquoted securities include securities amounting to KD12,085,277 (2011: KD16,547,778) that are carried at cost as of the date of the consolidated statement of financial position due to unavailability of reliable sources to determine their fair value, out of which an amount of KD692,730 (2011: KD1,748,587) has been purchased during the current year. Those investments comprise of direct participation in newly established companies that have not commenced operations, or companies that have recently commenced operations but their financial statements are not issued yet. Based on the available valuation methods, no indications have been observed for any impairment in the contribution amount in these companies. The management is not aware of any circumstances that would indicate any impairment in the value of these investments as of the date of the consolidated statement of financial position.

During the year, the group recognised an impairment loss of KD1,411,190 (2011: KD10,805,366) against quoted and unquoted local securities as the fair value of these securities declined significantly below their cost.

25.2 The movement on available for sale investments are as follows:

|  | <b>31 Dec.<br/>2012<br/>KD</b> | 31 Dec.<br>2011<br>KD |
|--|--------------------------------|-----------------------|
| Beginning balance                        | <b>41,926,305</b>              | 58,454,917            |
| Purchases during the year                | <b>1,992,395</b>               | 4,007,650             |
| Disposals during the year                | <b>(5,076,978)</b>             | (14,989,155)          |
| Net movement in fair value               | <b>7,819,656</b>               | 5,258,259             |
| Impairment loss in value during the year | <b>(1,411,190)</b>             | (10,805,366)          |
| Ending balance                           | <b>45,250,188</b>              | 41,926,305            |

25.3 The movement on the balance of cumulative changes in fair value is as follows:

|  | <b>31 Dec.<br/>2012<br/>KD</b> | 31 Dec.<br>2011<br>KD |
|--|--------------------------------|-----------------------|
| Beginning balance  | <b>4,094,149</b>               | (1,164,110)           |
| Change in fair value during the year                                   | <b>5,531,258</b>               | (4,978,498)           |
| Transferred to consolidated statement of income on impairment in value | <b>1,411,190</b>               | 10,805,366            |
| Transferred to consolidated statement of income on sale                | <b>877,209</b>                 | (568,609)             |
| Ending balance   | <b>11,913,806</b>              | 4,094,149             |

## Notes to the consolidated financial statements (continued)

### 26 Investment properties

26.1 Investment properties are geographically distributed among the following countries:

|              | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|--------------|-----------------------|-----------------------|
| Lebanon      | 1,858,471             | 2,606,538             |
| Jordan       | 401,800               | 1,013,182             |
| UAE          | 18,729,771            | 19,098,718            |
| Egypt        | 354,966               | 354,966               |
| Portugal     | 8,942,632             | 8,982,064             |
| South Africa | 175,697               | 178,034               |
|              | <b>30,463,337</b>     | <b>32,233,502</b>     |

26.2 Investment properties represent the following:

|   | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---|-----------------------|-----------------------|
| Freehold land in Zimbali – South Africa                         | 175,697               | 178,034               |
| Land in Jordan  | 401,800               | 1,013,182             |
| Land in UAE   | 413,894               | 410,113               |
| Land in Egypt   | 354,966               | 354,966               |
| Apartments in Dubai – UAE                                       | 297,277               | 677,748               |
| Building in Lebanon   | 1,858,471             | 2,606,538             |
| Apartments in Portugal  | 8,942,632             | 8,982,064             |
| Crescent and Palm Jumeirah (freehold land in the Crescent area) | 18,018,600            | 18,010,857            |
|   | <b>30,463,337</b>     | <b>32,233,502</b>     |

26.3 The movement on investment properties is as follows:

|   | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---|-----------------------|-----------------------|
| <b>At fair value</b>                              |                       |                       |
| Beginning balance                                 | 32,233,502            | 23,930,266            |
| Additions during the year                         | -                     | 13,189,068            |
| Disposals during the year (see below)             | (1,126,373)           | (10,001,253)          |
| Unrealized (loss)/gain from revaluation (Note 12) | (607,600)             | 5,464,745             |
| Net foreign currency exchange differences         | (36,192)              | (349,324)             |
| Ending balance                                    | <b>30,463,337</b>     | <b>32,233,502</b>     |

During the year, the group sold investment properties for a consideration of KD2,316,258 which resulted in a net gain amounting to KD1,189,885 (2011: loss amounting to KD1,299,302), included in net gain on investment properties (Note 12) in the consolidated statement of income.

Other foreign investment properties with a carrying value of KD2,213,437 (2011: KD3,341,437) have not been valued by independent foreign valuers according to the requirements of the Kuwaiti Capital Market Authority, but these have been carried at cost which does not differ significantly from the fair value in accordance with the management's estimates of their values at the year end.

The fair value of other investment properties located outside the State of Kuwait has been estimated by independent external valuers where the revaluation loss has amounted to KD607,600 (2011: gain of amount KD5,464,745) (Note 12).

## Notes to the consolidated financial statements (continued)

### 27 Investment in associated companies

27.1 Details of associated companies are as follows:

| Name of the associate  | Principal activities                | Place of incorporation | 31 Dec. 2012 |                   | 31 Dec. 2011 |                   |
|--|-------------------------------------|------------------------|--------------|-------------------|--------------|-------------------|
|  |                                     |                        | %            | KD                | %            | KD                |
| Boschendam (Pty) Ltd (c)   | Real estate                         | South Africa           | -            | -                 | 37.33        | 2,587,950         |
| Raimon Land Public Company Limited – Quoted (d)                          | Property construction & development | Thailand               | -            | -                 | 41.08        | 12,126,583        |
| Purple Plum Properties Ltd   | Property development                | South Africa           | 37.33        | 1                 | 37.33        | 1                 |
| Zamzam Religious Tourism Company Legend & IFA Developments (Pty) Ltd (b) | Hajj & Umrah                        | Kuwait                 | 20           | 50,000            | 20           | 50,000            |
| International Finance Company – KSCC – Quoted (a)                        | Property development                | South Africa           | 50           | 11,092,418        | 50           | 11,291,732        |
|  | Financing                           | Kuwait                 | 19.63        | 26,050,092        | 20.15        | 34,435,577        |
|  |                                     |                        |              | <b>37,192,511</b> |              | <b>60,491,843</b> |

The above is made up as follows:

|  | 31 Dec. 2012<br>KD | 31 Dec. 2011<br>KD |
|--|--------------------|--------------------|
| Direct equity investments in the company's capital | 26,100,104         | 46,612,172         |
| Shareholders loans (b)                             | 11,092,407         | 13,879,671         |
|  | <b>37,192,511</b>  | <b>60,491,843</b>  |

a) During the year, the group recognised an impairment loss amounting to KD5,000,000 (2011: KD1,333,499) against the investment value in an associate [International Finance Company – KSC (Closed)] since it was found that there is a decrease in the fair value of this investment below its carrying value by using the discounted cash flow method to estimate the fair value by the management. The market value of the other associates is significantly above the carrying value of these companies in the group's records.

During the year, the group also sold a percentage of 0.52% from the shares of International Finance Company – KSC (Closed) from which a loss of amount KD3,104,434 has resulted (KD Nil in 31 December 2011)

b) Investment in Legends & IFA Developments (Pty) Limited, includes shareholders' loans of KD11,092,407 (2011: KD12,962,726 in addition to the loan of Boschendam (Pty) Ltd) which are non interest bearing. These loans are unsecured and are not repayable before 31 December 2013.

c) During the year, a South African subsidiary disposed one of its associates, Boschendam (Pty) Ltd, (37.33% ownership interest) carried at KD2,890,314 (including shareholders loan) for a consideration of KD2,698,400 resulting in a loss of KD191,914.

d) The group investment in Raimon Land Public Company Limited amounting to KD12,126,583 including a goodwill amounting to KD2,900,934 have been reclassified to the category of asset classified as held for sale (Note 24).

e) The aggregate fair market value of the quoted investments is as follows:

|                                      | 31 Dec. 2012<br>KD | 31 Dec. 2011<br>KD |
|--------------------------------------|--------------------|--------------------|
| Carrying amount of quoted securities | 26,050,092         | 46,562,160         |
| Fair value of quoted securities      | <b>10,880,634</b>  | <b>30,599,297</b>  |

## Notes to the consolidated financial statements (continued)

### 27 Investment in associated companies (continued)

27.2 Summarized financial information in respect of group's share in the associated companies is set out below:

|   | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---|-----------------------|-----------------------|
| Total Assets  | 150,975,600           | 318,209,524           |
| Total Liabilities   | (45,281,425)          | (186,134,650)         |
| <b>Total equity</b>   | <b>105,694,175</b>    | <b>132,074,874</b>    |
| Group's share of net assets of associates at carrying value | 31,740,971            | 46,028,570            |
| Goodwill on acquisition (Note 27.3)                         | 5,451,540             | 14,463,273            |
| <b>Investment in associates as on 31 December</b>           | <b>37,192,511</b>     | <b>60,491,843</b>     |
| Total revenue   | 9,317,006             | 4,478,048             |
| Groups' share of loss from associated companies             | (1,109,406)           | (2,210,737)           |

27.3 Goodwill in associated companies which is included in the value of investment:

|  | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|--|-----------------------|-----------------------|
| Beginning balance  | 14,463,273            | 12,634,889            |
| Additions during the year  | 893,561               | 4,923,909             |
| Disposal during the year   | (2,004,351)           | (1,343,254)           |
| Impairment loss in value [27.1(a)]                                 | (5,000,000)           | (1,333,499)           |
| Re-classified to asset classified as held for sale [Note 27.1 (d)] | (2,900,943)           | -                     |
| Foreign currency exchange differences                              | -                     | (418,772)             |
| <b>Ending balance</b>  | <b>5,451,540</b>      | <b>14,463,273</b>     |

### 28 Goodwill

|                                       | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---------------------------------------|-----------------------|-----------------------|
| Beginning balance                     | 48,679,192            | 49,031,197            |
| Impairment loss in value              | -                     | (332,982)             |
| Foreign currency exchange differences | (793)                 | (19,023)              |
| <b>Ending balance</b>                 | <b>48,678,399</b>     | <b>48,679,192</b>     |

#### *Test for impairment*

The group assessed the amount of goodwill raised from its subsidiaries by using the discounted cash flows method on the basis of discount rate of 15%. The valuation has not resulted in any indication of impairment as of the date of the consolidated statement of financial position date.



## Notes to the consolidated financial statements (continued)

### 29 Properties under development

29.1 The properties under development consist of the following in the below countries:

|  | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|--|-----------------------|-----------------------|
| a) UAE (Note 29.2)                     |                       |                       |
| <b>Land cost</b>                       |                       |                       |
| - Balqis Residence                     | 23,670,549            | 23,450,430            |
| - Jumeirah Lake, Dubai                 | 2,704,131             | 2,311,151             |
| - Kingdom of Sheeba Heritage Place     | 4,161,192             | 4,122,496             |
| Construction piling and enabling works | 71,061,114            | 67,965,048            |
| Other costs related to construction    | 25,240,211            | 20,811,874            |
|  | <b>126,837,197</b>    | 118,660,999           |
| b) South Africa (Note 29.3)            | 7,772,050             | 8,918,321             |
| c) Lebanon Republic                    | 15,663,592            | 19,486,047            |
| <b>Total</b>                           | <b>150,272,839</b>    | 147,065,367           |

29.2 The movement on properties under development in UAE is as follows:

|                                       | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---------------------------------------|-----------------------|-----------------------|
| <b>Land:</b>                          |                       |                       |
| Beginning balance                     | 30,158,548            | 32,079,624            |
| Additions during the year             | 371,286               | 205,604               |
| Charged to cost of sales              | -                     | (2,126,680)           |
| Ending balance                        | <b>30,529,834</b>     | 30,158,548            |
| <b>Development expenditure:</b>       |                       |                       |
| Beginning balance                     | 89,426,270            | 85,923,843            |
| Additions during the year             | 6,691,092             | 19,019,574            |
| Charged to cost of sales              | -                     | (15,517,147)          |
| Ending balance                        | <b>96,117,362</b>     | 89,426,270            |
|                                       | <b>126,647,196</b>    | 119,584,818           |
| Foreign currency exchange differences | 190,001               | (923,819)             |
| <b>Total</b>                          | <b>126,837,197</b>    | 118,660,999           |

29.3 The movement on properties under development in South Africa is as follows:

|                                       | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---------------------------------------|-----------------------|-----------------------|
| <b>Land:</b>                          |                       |                       |
| Beginning balance                     | 2,454,600             | 2,454,265             |
| Additions                             | -                     | 4,031                 |
| Charged to cost of sales              | -                     | (3,696)               |
| Impairment loss in value (see below)  | (835,835)             | -                     |
| Ending balance                        | <b>1,618,765</b>      | 2,454,600             |
| <b>Development expenditure:</b>       |                       |                       |
| Beginning balance                     | 3,923,437             | 4,065,251             |
| Additions during the year             | 22,507                | 434,796               |
| Charged to cost of sales              | (223,711)             | (576,610)             |
| Impairment loss in value (see below)  | (22,825)              | -                     |
| Ending balance                        | <b>3,699,408</b>      | 3,923,437             |
|                                       | <b>2,453,877</b>      | 2,540,284             |
| Foreign currency exchange differences | 2,453,877             | 2,540,284             |
| <b>Total</b>                          | <b>7,772,050</b>      | 8,918,321             |

## Notes to the consolidated financial statements (continued)

### 29 Properties under development (continued)

29.3 The movement in properties under development in South Africa (continued)

During the year, a South African subsidiary and a Lebanese subsidiary recognised an impairment loss in value of KD1,036,575 (2011: KD Nil) against certain properties under development based on the estimates made by the management as per information available to them about the recoverable sale value for these properties.

### 30 Capital work in progress

30.1 Capital work in progress consists of the following:

|   | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---|-----------------------|-----------------------|
| <b>Land cost:</b>                       |                       |                       |
| - The Trunk , Palm Jumeirah             | 6,605,366             | 6,543,941             |
| - Crescent, Palm Jumeirah               | 1,165,970             | 1,155,127             |
| - Golden Mile, Palm Jumeirah            | 3,478,658             | 3,446,309             |
| - Kingdom of Sheeba Hotel               | 6,377,856             | 6,318,547             |
| Construction pilling and enabling works | 68,695,294            | 61,497,473            |
| Other costs related to construction     | 35,833,346            | 24,719,187            |
| <b>Total</b>                            | <b>122,156,490</b>    | <b>103,680,584</b>    |

30.2 The movement on capital work in progress is as follows:

|                                       | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---------------------------------------|-----------------------|-----------------------|
| <b>Land:</b>                          |                       |                       |
| Beginning balance                     | 20,097,434            | 20,097,434            |
| Ending balance                        | 20,097,434            | 20,097,434            |
| <b>Development expenditure:</b>       |                       |                       |
| Beginning balance                     | 84,980,679            | 59,962,251            |
| Additions during the year             | 17,499,049            | 25,018,428            |
| Ending balance                        | 102,479,728           | 84,980,679            |
| Foreign currency exchange differences | (420,672)             | (1,397,529)           |
| <b>Total</b>                          | <b>122,156,490</b>    | <b>103,680,584</b>    |

Capital work in progress represents mainly hotels under construction in Dubai – UAE, United Kingdom and Europe.

## Notes to the consolidated financial statements (continued)

### 31 Property, plant and equipment

|                                      | Freehold<br>land<br>KD | Buildings on<br>freehold land<br>KD | Building on<br>leasehold<br>land<br>KD | Plant and<br>equipment<br>KD | Furniture and<br>fixture<br>KD | Motor<br>vehicles<br>KD | Yacht<br>KD      | Aircraft<br>KD   | Total<br>KD       |
|--------------------------------------|------------------------|-------------------------------------|--|------------------------------|--------------------------------|-------------------------|------------------|------------------|-------------------|
| <b>Cost</b>                          |                        |                                     |  |                              |                                |                         |                  |                  |                   |
| At 1 January 2012                    | 710,826                | 20,462,394                          | 9,412,927                              | 1,678,297                    | 5,923,011                      | 283,971                 | 1,386,106        | 7,156,416        | 47,013,948        |
| Additions                            | -                      | -                                   | 4,491                                  | 19,502                       | 202,749                        | -                       | -                | -                | 226,742           |
| Disposal                             | -                      | (10,088)                            | -                                      | (7,164)                      | (83,125)                       | (16,465)                | -                | -                | (116,842)         |
| Impairment loss                      | -                      | -                                   | -                                      | -                            | -                              | -                       | -                | (3,202,371)      | (3,202,371)       |
| Foreign currency exchange adjustment | (6,444)                | (25,185)                            | 152,707                                | (12,361)                     | (44,883)                       | 1,110                   | -                | -                | 64,944            |
| <b>At 31 December 2012</b>           | <b>704,382</b>         | <b>20,427,121</b>                   | <b>9,570,125</b>                       | <b>1,678,274</b>             | <b>5,997,752</b>               | <b>268,616</b>          | <b>1,386,106</b> | <b>3,954,045</b> | <b>43,986,421</b> |
| <b>Depreciation</b>                  |                        |                                     |  |                              |                                |                         |                  |                  |                   |
| At 1 January 2012                    | -                      | 1,626,118                           | 1,891,401                              | 1,433,082                    | 2,492,226                      | 213,076                 | 774,249          | 377,493          | 8,807,645         |
| Charge for the year                  | -                      | 399,540                             | 324,661                                | 78,610                       | 511,656                        | 778                     | 104,433          | 71,565           | 1,491,243         |
| Relating to disposal                 | -                      | -                                   | -                                      | -                            | (25,507)                       | (2,652)                 | -                | -                | (28,159)          |
| Foreign currency exchange adjustment | -                      | (19,147)                            | 16,306                                 | 20,250                       | (15,133)                       | 792                     | -                | -                | 3,068             |
| <b>At 31 December 2012</b>           | <b>-</b>               | <b>2,006,511</b>                    | <b>2,232,368</b>                       | <b>1,531,942</b>             | <b>2,963,242</b>               | <b>211,994</b>          | <b>878,682</b>   | <b>449,058</b>   | <b>10,273,797</b> |
| <b>Net carrying amount</b>           |                        |                                     |  |                              |                                |                         |                  |                  |                   |
| <b>At 31 December 2012</b>           | <b>704,382</b>         | <b>18,420,610</b>                   | <b>7,337,757</b>                       | <b>146,332</b>               | <b>3,034,510</b>               | <b>56,622</b>           | <b>507,424</b>   | <b>3,504,987</b> | <b>33,712,624</b> |

Building on leasehold land comprises a hotel known as the “Zanzibar Beach Hotels and Resorts” leased to IFA Hotels & Resort 2 Limited. These buildings have been constructed on land leased from the Zanzibar Revolutionary Government. The lease period commenced on 2 November 2000 for an initial lease term of 33 years.

Subsequent to the date of the statement of financial position, the group sold its aircraft to external party. Based on the net sale proceeds, the group recognised an impairment loss amounting to KD3,202,371 resulted from this sale transaction and recognised in the consolidated statement of income for the current year.

## Notes to the consolidated financial statements (continued)

### 31 Property, plant and equipment (continued)

|                                      | Freehold<br>land<br>KD | Buildings on<br>freehold land<br>KD | Building on<br>leasehold<br>land<br>KD | Plant and<br>equipment<br>KD | Furniture and<br>fixture<br>KD | Motor<br>vehicles<br>KD | Yacht<br>KD      | Aircraft<br>KD   | Total<br>KD       |
|--------------------------------------|------------------------|-------------------------------------|--|------------------------------|--------------------------------|-------------------------|------------------|------------------|-------------------|
| <b>Cost</b>                          |                        |                                     |  |                              |                                |                         |                  |                  |                   |
| At 1 January 2011                    | 824,576                | 19,240,667                          | 9,401,061                              | 1,655,507                    | 6,270,184                      | 296,265                 | 1,386,106        | 7,156,416        | 46,230,782        |
| Additions                            | 45,776                 | 4,565,367                           | 115,331                                | 116,960                      | 393,947                        | 7,903                   | -                | -                | 5,245,284         |
| Disposal                             | -                      | -                                   | -                                      | (14,095)                     | -                              | (3,290)                 | -                | -                | (17,385)          |
| Foreign currency exchange adjustment | (159,526)              | (3,343,640)                         | (103,465)                              | (80,075)                     | (741,120)                      | (16,907)                | -                | -                | (4,444,733)       |
| <b>At 31 December 2011</b>           | <b>710,826</b>         | <b>20,462,394</b>                   | <b>9,412,927</b>                       | <b>1,678,297</b>             | <b>5,923,011</b>               | <b>283,971</b>          | <b>1,386,106</b> | <b>7,156,416</b> | <b>47,013,948</b> |
| <b>Depreciation</b>                  |                        |                                     |  |                              |                                |                         |                  |                  |                   |
| At 1 January 2011                    | -                      | 1,118,033                           | 1,366,553                              | 1,175,029                    | 1,979,347                      | 196,940                 | 635,638          | 305,928          | 6,777,468         |
| Charge for the year                  | -                      | 717,209                             | 453,078                                | 328,958                      | 556,625                        | 29,764                  | 138,611          | 71,565           | 2,295,810         |
| Relating to disposal                 | -                      | -                                   | -                                      | (14,095)                     | (24,107)                       | (3,290)                 | -                | -                | (41,492)          |
| Foreign currency exchange adjustment | -                      | (209,124)                           | 71,770                                 | (56,810)                     | (19,639)                       | (10,338)                | -                | -                | (224,141)         |
| <b>At 31 December 2011</b>           | <b>-</b>               | <b>1,626,118</b>                    | <b>1,891,401</b>                       | <b>1,433,082</b>             | <b>2,492,226</b>               | <b>213,076</b>          | <b>774,249</b>   | <b>377,493</b>   | <b>8,807,645</b>  |
| <b>Net carrying amount</b>           |                        |                                     |  |                              |                                |                         |                  |                  |                   |
| <b>At 31 December 2011</b>           | <b>710,826</b>         | <b>18,836,276</b>                   | <b>7,521,526</b>                       | <b>245,215</b>               | <b>3,430,785</b>               | <b>70,895</b>           | <b>611,857</b>   | <b>6,778,923</b> | <b>38,206,303</b> |

## Notes to the consolidated financial statements (continued)

### 32 Payables and other credit balances

|   | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---|-----------------------|-----------------------|
| Accrued interest payable                                | 5,240,835             | 5,261,025             |
| Accounts payable  | 17,771,798            | 23,342,667            |
| Dividends payable                                       | 521,343               | 525,111               |
| Obligations against purchase of land (see below)        | 7,286,773             | 8,071,579             |
| Kuwait Foundation for the Advancement of Science (KFAS) | 2,391,320             | 2,391,770             |
| National Labour Support Tax (NLST)                      | 7,458,445             | 7,457,996             |
| Zakat provision   | 573,329               | 573,329               |
| Provision for end of service indemnity and leave        | 1,572,853             | 2,095,382             |
| Deferred income   | 1,807,143             | 1,721,630             |
| Accrued retention payable                               | 11,879,463            | 11,272,699            |
| Accrued construction costs                              | 4,677,906             | 7,455,059             |
| Redeemable preference shares                            | 2,993,455             | 2,903,158             |
| Refundable deposits on cancellation and resale of units | 4,482,701             | 2,666,883             |
| Provision for contingent liabilities (Note 40)          | 73,966                | 73,966                |
| Other payables  | 3,967,136             | 7,455,917             |
|   | <b>72,698,466</b>     | <b>83,268,171</b>     |

Liability towards purchase of land comprises of an amount due on purchase of plot of land in the Crescent area of the Palm Jumeirah, Dubai and a plot located at Jumeirah Lake in Dubai, and it is repayable as the following:

|                    | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|--------------------|-----------------------|-----------------------|
| Within one year    | 4,954,833             | 5,761,324             |
| More than one year | 2,331,940             | 2,310,255             |
|                    | <b>7,286,773</b>      | <b>8,071,579</b>      |

### 33 Term loan from a related party

| Currency | Principal<br>KD | From       | To         | Interest | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|----------|-----------------|------------|------------|----------|-----------------------|-----------------------|
| KD       | 9,943,636       | 01/05/2012 | 30/04/2013 | 7%       | 9,943,636             | 11,663,636            |

## Notes to the consolidated financial statements (continued)

### 34 Borrowings

The loan balances and bank facilities of the group are represented at the date of the consolidated statement of financial position by the following:

|    | Currency | Period due |            | Effective interest rates  | Purpose                           | Assets pledged  | Balance as at 31 Dec. 2012<br>KD | Balance as at 31 Dec. 2011<br>KD |
|----|----------|------------|------------|---------------------------|-----------------------------------|---|----------------------------------|----------------------------------|
|    |          | From       | To         |                           |                                   |   |                                  |                                  |
| 1  | USD      | 28-12-2005 | 28-12-2019 | 2.5% + Libor              | Financing the group's investments | Shares of parent company and IFA H& R shares  | 33,783,000                       | 33,475,200                       |
| 2  | EUR      | 15-06-2007 | 28-12-2019 | 2.5%+Euro Libor           | Financing the group's investments | Shares of IFA H& R and an AFS investment  | 7,467,732                        | 7,213,068                        |
| 3  | KD       | 26-06-2012 | 30-06-2019 | 2.75% + CBK discount rate | Repayment of indebtedness         | Local portfolio with 120% coverage  | 25,000,000                       | 25,000,000                       |
| 4  | KD       | 05-01-2012 | 31-12-2015 | 2.5% + CBK discount rate  | Local Equity financing            | Financial portfolio with 200% coverage  | 20,000,000                       | 20,000,000                       |
| 5  | USD      | 26-07-2007 | 26-07-2015 | 2% + Libor                | Purchase of aircraft              | Aircraft  | 3,075,661                        | 3,577,662                        |
| 6  | USD      | 21-06-2006 | 21-6-2012  | 3% + Libor                | Financing the group's investments | Fully settled during 2012   | -                                | 847,341                          |
| 7  | KD       | 08-11-2006 | 08-03-2012 | 3% + CBK discount rate    | Purchase of investment properties | Fully settled during 2012   | -                                | 5,226,202                        |
| 8  | KD       | 16-06-2012 | 15-03-2015 | 2.5% + CBK discount rate  | Local equity financing            | AFS investments and IFA H&R shares  | 6,000,000                        | 6,500,000                        |
| 9  | AED      | 01-05-2007 | 30-04-2015 | 5% - 12%                  | Projects financing                | Properties located in Palm Jumeirah, U.A.E and collections deposited in account opened in a foreign bank      | 68,043,800                       | 54,038,528                       |
| 10 | Rand     | 23/05/2007 | 21/05/2017 | 4% - 11.5%                | Financing the group's investments | Mortgage of certain property, plant and equipment and certain trading properties in South Africa subsidiaries | 17,220,226                       | 19,208,660                       |
| 11 | USD      | 15/05/2008 | 15/06/2018 | 4% - 11.5%                | Financing the group's investments | Additional amount and future shares of IFA Hotels and Resorts – 2 Limited                                     | 2,256,272                        | 2,406,876                        |
| 12 | USD      | 01/01/2010 | 31/12/2016 | 7% - 9%                   | Acquisition of properties         | Land included in properties under development   | 2,259,344                        | 2,336,734                        |
| 13 | EUR      | 15/09/2011 | 15/03/2024 | 6.5%                      | Acquisition of properties         | Investment properties owned by the subsidiary   | 6,557,231                        | 6,898,629                        |
| 14 | GBP      | 01/08/2008 | 31/07/2018 | 4.5%                      | Financing the group's investments | Assets of Yotel Airports Limited  | 412,590                          | 438,836                          |
|    |          |            |            |                           |                                   |   | <b>192,075,856</b>               | <b>187,167,736</b>               |

## Notes to the consolidated financial statements (continued)

### 35 Advances received from customers

These balances represent amounts collected in advance from customers of a subsidiary company of the group on the sale of residential flats currently under construction by the group. Advances from those customers are transferred to income upon completion of the construction of the sold unit and handing it over to the customer.

### 36 Share capital, share premium and treasury shares

#### Share capital

The authorised and paid up share capital of the parent company as at 31 December 2012 comprised of 720,000,000 shares of 100 Fils each, all issued and fully paid (2011: 720,000,000 shares of 100 Fils each).

#### Share premium

Share premium is not available for distribution, unless otherwise stipulated by local laws.

#### Treasury shares

|                                  | 31 Dec. 2012     |      |                 | 31 Dec. 2011     |      |                 |
|----------------------------------|------------------|------|-----------------|------------------|------|-----------------|
|                                  | Number of shares | %    | Market Value KD | Number of shares | %    | Market Value KD |
| Balance at beginning of the year | 49,649,248       | 6.90 | 1,961,145       | 47,849,248       | 6.65 | 2,823,106       |
| Net movement                     | (136,120)        |      |                 | 1,800,000        |      |                 |
| Balance at end of the year       | 49,513,128       | 6.88 | 2,153,821       | 49,649,248       | 6.90 | 1,961,145       |

Reserves of the parent company equivalent to the cost of treasury shares have been earmarked as non-distributable.

### 37 Statutory and Voluntary reserves

In accordance with the Companies Law and the parent company's Articles of Association, 10% of the profit for the year attributable to the owners of the parent company (before contribution to KFAS, National Labour Support tax, Zakat and board of directors' remuneration) is transferred to statutory reserve. The parent company may resolve to discontinue such annual transfer when the reserve becomes equivalent to 50% of the paid up share capital.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

The parent company's articles of association requires that 10% of the profit for the year attributable to the owners of the parent company (before contribution to KFAS, National Labour Support tax, Zakat and board of directors' remuneration) should be transferred to a voluntary reserve.

No transfers are required in a year when losses are made.

### 38 Fiduciary accounts

These accounts include balances of investment portfolios and term deposits with the total amount of KD81,929,620 (2011: KD78,763,582) which are held by the group on behalf of its customers as margin guarantees against customer obligations for activities related to trading

### 39 Proposed dividends

Subsequent to the date of the consolidated statement of financial position, the directors have proposed not to distribute any dividends for the year ended 31 December 2012. This proposal is subject to the approval of the parent company's shareholders at the annual general meeting assembly.

On 21 June 2012, the shareholders' general meeting assembly, approved the consolidated financial statements for the year ended 31 December 2011 and not to distribute any dividends for the year then ended.

## Notes to the consolidated financial statements (continued)

### 40 Contingent liabilities

In 1993, the liquidator of a bank in Bahrain filed a legal case in Ajman (United Arab Emirates) against the parent company and Gulf Group for Industrial Projects, claiming an amount of US\$ 27,714,944 representing the balance of debt due from a third party. Two court decisions were issued by the Court of First Instance in favour of the parent company during 1995 and 1996, in addition to an appeal court decision issued in 1998 in favour of the parent company by that court, rejecting the aforementioned appeal, and supporting the decision issued by the Court of First Instance in favour of the parent company.

On 25 January 2006 a court order was issued requesting the payment of KD1,788,944 (AED22,431,145) from Gulf Group for Industrial Projects (the other party) and International Financial Advisors (parent company), jointly, being the principal amount of the debt to 29 April 1985 plus an amount of KD3,272,312 (AED41,032,903) interest on that amount from 29 April 1985 to the date of the court case on 12 August 1993. The parent company has provided for its share of principal and interest as ruled by the court for a total amount of KD5,061,256 during the year 2005.

During the year 2007, the parent company also provided an amount of KD1,815,219 (AED 29,041,265) as interest for the period from 13 August 1993 to 31 December 2007.

The Court of Appeal of Ajman has released its final judgement in favour of a bank against the parent company and other related company jointly to pay a total amount of USD27 Million to that bank and the judgement has become implementable. Accordingly, the parent company increased its provision for contingent liabilities against that case by KD581,987 during the first quarter of year 2011 to cover its share of loss resulting from this judgement. Subsequently, the parent company paid an amount of KD7,384,496 during the second quarter of 2011 as a settlement of this liability, and so the remaining outstanding balance of this liability become KD73,966 (Note 32).

During the year 2010, a master property developer (Nakheel) initiated legal proceedings for claim of KD7,664,000 (AED100 Million) against a joint venture formed by a UAE subsidiary with another party. Whereas the joint venture lodged a counter claim of KD70,508,000 (AED920 Million), against sale of retail space in Golden Mile. Since these counters litigations are in the initial stage, the probable outcome cannot be estimated at this stage.

### 41 Capital Commitments

#### Capital expenditure commitments

At 31 December 2012, the group was committed to invest in the additional anticipated funding required to build several real estate projects in Dubai – UAE, Beirut –Lebanon, South Africa and U.S.A. The group's share in the estimated funding commitments on these projects is as follows:

|  | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|--|-----------------------|-----------------------|
| Estimated and contracted commitments for property, plant & equipment and capital work in progress                    | -                     | 10,821,000            |
| Estimated and contracted capital expenditure for construction of properties under development and trading properties | <b>37,177,000</b>     | 43,530,000            |
|  | <b>37,177,000</b>     | 54,351,000            |



## Notes to the consolidated financial statements (continued)

### 41 Capital Commitments (continued)

The group expects to finance the future expenditure commitments from the following sources:

- a) sale of investment properties;
- b) advances from customers;
- c) raising additional share capital;
- d) advances provided by the shareholders, related entities, joint ventures; and
- e) borrowings, if required.

Expected financing rates from the above sources are dependent on the source of financing and management estimates of the best financing available at the time they become due.

### 42 Segmental information

The group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. According to this standard, reported segment profits or losses are based on management's internal financial reporting information that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance, and then it is reconciled to the group's profit or loss. In contrast, the predecessor standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical). The adoption of IFRS 8 has resulted in a change in the identification of the group's reportable segments. The measurement policies the group uses for segment reporting under IFRS 8 are the same as those used in its financial statements.

The group primarily operates in one area of business activity, investment. Accordingly in prior years, segment information reported externally was analysed on the geographical basis. However, information reported to the group's decision makers for the purposes of resource allocation and assessment of performance is more specifically focussed on the types of investment activities. The group's reportable segments under IFRS 8 are therefore as follows:

#### Assets management

- Investments in Gulf Cooperation Council Countries, Middle East & North Africa
- International managed investment funds
- Discretionary and non-discretionary financial portfolios management
- Management services

#### Treasury and investments

- Private equity
- Investment in international quoted securities
- Lending to corporate and individuals
- Managing the company's liquidity requirements

#### Real estate

- Sale and purchase of real estate
- Real estate brokerage and advisory

## Notes to the consolidated financial statements (continued)

### 42 Segmental information (continued)

The losses and profits generated by the group from business segments are summarised as follows:

|   | Asset Management        |                         | Treasury and Investments |                         | Real Estate             |                         | Other                   |                         | Total                   |                         |
|---|-------------------------|-------------------------|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|   | 31 Dec. 2012<br>KD '000 | 31 Dec. 2011<br>KD '000 | 31 Dec. 2012<br>KD '000  | 31 Dec. 2011<br>KD '000 | 31 Dec. 2012<br>KD '000 | 31 Dec. 2011<br>KD '000 | 31 Dec. 2012<br>KD '000 | 31 Dec. 2011<br>KD '000 | 31 Dec. 2012<br>KD '000 | 31 Dec. 2011<br>KD '000 |
| Segment income/(loss)                     | 806                     | 884                     | (899)                    | (2,193)                 | 7,403                   | 22,195                  | 1,469                   | 4,705                   | 8,779                   | 25,591                  |
| <b>Segment (loss)/profit for the year</b> | <b>(685)</b>            | <b>(1,412)</b>          | <b>(15,723)</b>          | <b>(26,569)</b>         | <b>6,366</b>            | <b>22,195</b>           | <b>(14,853)</b>         | <b>(14,956)</b>         | <b>(24,895)</b>         | <b>(20,742)</b>         |
| Depreciation                              |                         |                         |                          |                         |                         |                         |                         |                         | 1,491                   | 2,296                   |
| Impairment                                |                         |                         |                          |                         |                         |                         |                         |                         | 10,650                  | 12,472                  |
| Written off balances                      |                         |                         |                          |                         |                         |                         |                         |                         | 1,587                   | 721                     |
| <b>Statement of financial position</b>    |                         |                         |                          |                         |                         |                         |                         |                         |                         |                         |
| Total segmental assets                    | 37,108                  | 42,782                  | 152,016                  | 178,248                 | 316,374                 | 288,663                 | -                       | -                       | 505,498                 | 509,693                 |
| Total segmental liabilities               | -                       | -                       | (202,019)                | (188,888)               | (140,030)               | (131,671)               | -                       | -                       | (342,049)               | (320,559)               |
| <b>Net segmental assets</b>               | <b>37,108</b>           | <b>42,782</b>           | <b>(50,003)</b>          | <b>(10,640)</b>         | <b>176,344</b>          | <b>156,992</b>          | <b>-</b>                | <b>-</b>                | <b>163,449</b>          | <b>189,134</b>          |
| Unallocated assets                        |                         |                         |                          |                         |                         |                         |                         |                         | 27,944                  | 30,218                  |
| Unallocated liabilities                   |                         |                         |                          |                         |                         |                         |                         |                         | (88,474)                | (97,299)                |
| <b>Net Assets</b>                         |                         |                         |                          |                         |                         |                         |                         |                         | <b>102,919</b>          | <b>122,053</b>          |

## Notes to the consolidated financial statements (continued)

### 43 Related parties transactions

These represent transactions with related parties that is shareholders, directors and senior management of the parent company, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the parent company's management.

Transactions with related parties included in the consolidated financial statements are as follows:

|   | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---|-----------------------|-----------------------|
| <b>Balances included in the consolidated statement of financial position:</b> |                       |                       |
| Amounts due from related parties (Note 22)                                    | 4,741,193             | 5,416,036             |
| Amounts due to related parties (Note 22)                                      | (15,775,238)          | (4,087,875)           |
| Term loan from a related party (Note 33)                                      | (9,943,636)           | (11,663,637)          |
| <b>Transactions included in the consolidated statement of income:</b>         |                       |                       |
| Interest expenses   | 56,359                | 104,777               |
| Interest income   | 28,008                | 49,392                |
| Loss on sale of available for sale investments                                | 267,048               | (1,050,167)           |
| Gain on sale of investment at fair value through profit or loss               | 17,009                | 780,042               |
| Loss on sale of investment properties   | -                     | (905,308)             |
| <b>Key management compensation of the group:</b>                              |                       |                       |
| Short-term employee benefits  | 602,407               | 465,928               |

Related party balances outstanding at year end due to funds transfer are included under amounts due from related parties and amount due to related parties (Note 22).

### 44 Risk management objectives and policies

The group's activities expose it to variety of financial risks: market risks (including currency risk, interest rate risk, price risk), credit risk and liquidity risk.

The group's risk management is carried out by the central risk management function and focuses on actively securing the group's short to medium term cash flows by minimizing the potential adverse effects on the group's financial performance through internal risk reports which analyse exposures by degree and magnitude of risks. Long term financial investments are managed to generate lasting returns.

The board of directors of the parent company is ultimately responsible for setting out risk strategies and objectives and policies for their management.

The most significant financial risks to which the group is exposed to are described below.

#### 44.1 Market risk

##### a) Foreign currency risk management

The group mainly operates in the GCC, South Africa and other Middle Eastern countries and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to UAE Dirhams, Euro, South Africa Rand, Sterling Pound and US Dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored and forward exchanged contracts are entered into in accordance with the group's risk management policies. Generally, the group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows. Where the amounts to be paid and received in specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward foreign contracts are mainly entered into for significant long-term foreign currency exposures that are not expected to be offset by other currency transactions.

## Notes to the consolidated financial statements (continued)

### 44 Risk management objectives and policies (continued)

#### 44.1 Market risk (continued)

##### a) Foreign currency risk management (continued)

The group had the following significant exposures denominated in foreign currencies, translated into Kuwaiti Dinar at the closing rate at year end:

|                    | 31 Dec.<br>2012<br>KD'000 | 31 Dec.<br>2011<br>KD'000 |
|--------------------|---------------------------|---------------------------|
| UAE Dirhams        | (89,780)                  | (19,020)                  |
| Euro               | (13,117)                  | (13,396)                  |
| South African Rand | (17,599)                  | (21,863)                  |
| Sterling Pound     | (1,423)                   | (1,199)                   |
| US Dollar          | (53,281)                  | (50,809)                  |

If the Kuwaiti Dinar had strengthened/weakened against the foreign currencies assuming the sensitivity given in the table below, then this would have the following impact on the profit/(loss) for the year:

|                    | 31 Dec. 2012   |   | 31 Dec. 2011   |   |
|--------------------|----------------|---|----------------|---|
|                    | Inc/(Dec)<br>% | Profit/(loss)<br>for the year<br>KD'000 | Inc/(Dec)<br>% | Profit/(loss)<br>for the year<br>KD'000 |
| UAE Dirhams        | +1.2           | (1,075)                                 | +1.15          | (219)                                   |
|                    | -1.2           | 1,075                                   | -1.15          | 219                                     |
| Euro               | +3.38          | (443)                                   | +3.75          | (502)                                   |
|                    | -3.38          | 443                                     | -3.75          | 502                                     |
| South African Rand | +2.28          | (401)                                   | +20.42         | (4,464)                                 |
|                    | -2.28          | 401                                     | -20.42         | 4,464                                   |
| Sterling Pound     | +5.19          | (74)                                    | +1.25          | (15)                                    |
|                    | -5.19          | 74                                      | -1.25          | 15                                      |
| US Dollar          | +1.23          | (653)                                   | +1.08          | (551)                                   |
|                    | -1.23          | 653                                     | -1.08          | 551                                     |

The above percentages have been determined based on the average foreign exchange rates in the previous twelve months.

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the group's exposure to foreign currency risk.

##### b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

Provisions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The effective interest rate (effective yield) of a monetary financial instruments is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

## Notes to the consolidated financial statements (continued)

### 44 Risk management objectives and policies (continued)

#### 44.1 Market risk (continued)

##### b) Interest rate risk (continued)

##### Interest rate sensitivity analysis

The following table illustrates the sensitivity of the (loss)/profit for the year to a reasonably possible change in interest rates of + 1% and – 1% (2011: + 1% and –1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market condition. The calculations are based on the group's financial instruments held at each date of the consolidated statement of financial position. All other variables are held constant.

|                            | 31 Dec. 2012    |                | 31 Dec. 2011    |                |
|----------------------------|-----------------|----------------|-----------------|----------------|
|                            | + 1 %<br>KD'000 | -1 %<br>KD'000 | + 1 %<br>KD'000 | -1 %<br>KD'000 |
| (Loss)/profit for the year | (1,768)         | 1,768          | (1,674)         | 1,674          |

##### c) Price risk

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified either as investments carried at fair value through profit or loss (including trading securities) and available for sale investments.

To manage its price risk arising from investments in equity securities, the group diversifies its portfolios. Diversification of the portfolios is done in accordance with the limits set by the group.

The equity price risk sensitivity is determined on the following assumptions:

|                 | 31 Dec.<br>2012<br>% | 31 Dec.<br>2011<br>% |
|-----------------|----------------------|----------------------|
| Kuwait market   | 1                    | -16                  |
| London market   | 4                    | -7                   |
| USA market      | 8                    | 5                    |
| China market    | 11                   | -21                  |
| Portugal market | 6.2                  | -29                  |
| Dubai market    | -2                   | -19                  |
| KSA market      | 6                    | -4                   |

The above percentages have been determined based on basis of average market movements during the year. The sensitivity analyses below have been determined based on the exposure to equity price risk at the consolidated statement of financial position date. The analysis reflects the impact of negative changes to equity prices in accordance with the above –mentioned equity price sensitivity assumptions.

|                                | Loss for the year         |                           | Equity                    |                           |
|--------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                                | 31 Dec.<br>2012<br>KD'000 | 31 Dec.<br>2011<br>KD'000 | 31 Dec.<br>2012<br>KD'000 | 31 Dec.<br>2011<br>KD'000 |
| Investments held for trading   | 575                       | (2,299)                   | -                         | -                         |
| Available for sale investments | -                         | -                         | 209                       | (324)                     |
| <b>Total</b>                   | <b>575</b>                | <b>(2,299)</b>            | <b>209</b>                | <b>(324)</b>              |

#### 44.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group credit policy and exposure to credit risk is monitored on an ongoing basis. The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate.

## Notes to the consolidated financial statements (continued)

### 44 Risk management objectives and policies (continued)

#### 44.2 Credit risk (continued)

The loans receivable consist mainly of margins, ongoing credit valuation is performed on financial conditions of these receivables where appropriate coverage of collaterals is monitored. The credit risk on liquid funds is limited because the counterparties are the banks with high credit-rating assigned by international credit rating agencies.

The group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the date of the consolidated statement of financial position, as summarized below:

|                                      | 31 Dec.<br>2012<br>KD '000 | 31 Dec.<br>2011<br>KD '000 |
|--------------------------------------|----------------------------|----------------------------|
| Cash and cash equivalents            | 14,896                     | 7,721                      |
| Receivables and other debit balances | 23,202                     | 24,802                     |
| Loans receivable                     | 3,395                      | 4,576                      |
| Due from related parties             | 4,741                      | 5,416                      |
|                                      | <b>46,234</b>              | <b>42,515</b>              |

Information on other significant concentrations of credit risk is set out in note 44.3.

#### 44.3 Concentration of assets

The group operates in different geographical areas. A geographical analysis based on location of assets is as follows:

|  | GCC<br>KD'000  | Asia<br>KD'000 | Africa<br>KD'000 | Europe<br>KD'000 | USA<br>KD'000 | Total<br>KD'000 |
|--|----------------|----------------|------------------|------------------|---------------|-----------------|
| <b>At 31 December 2012</b>                       |                |                |                  |                  |               |                 |
| <b>Assets</b>                                    |                |                |                  |                  |               |                 |
| Cash and cash equivalents                        | 12,945         | 548            | 967              | 258              | 178           | 14,896          |
| Investments at fair value through profit or loss | 2,115          | -              | -                | 3,884            | -             | 5,999           |
| Receivables and other debit balances             | 15,318         | 192            | 4,805            | 1,390            | 1,497         | 23,202          |
| Loans receivable                                 | 3,395          | -              | -                | -                | -             | 3,395           |
| Due from related parties                         | 3,712          | 32             | 985              | 12               | -             | 4,741           |
| Trading properties                               | 5,466          | -              | -                | -                | -             | 5,466           |
| Asset classified as held for sale                | 8,016          | -              | -                | -                | -             | 8,016           |
| Available for sale investments                   | 25,768         | 526            | 566              | 3,678            | 14,712        | 45,250          |
| Investment properties                            | 18,730         | 2,260          | 531              | 8,943            | -             | 30,464          |
| Investment in associated companies               | 26,100         | -              | 11,093           | -                | -             | 37,193          |
| Goodwill   | 47,015         | 1,663          | -                | -                | -             | 48,678          |
| Properties under development                     | 126,837        | 15,664         | 7,772            | -                | -             | 150,273         |
| Capital work in progress                         | 122,156        | -              | -                | -                | -             | 122,156         |
| Property, plant and equipment                    | 9,379          | 282            | 16,599           | 3,746            | 3,707         | 33,713          |
| <b>Total assets</b>                              | <b>426,952</b> | <b>21,167</b>  | <b>43,318</b>    | <b>21,911</b>    | <b>20,094</b> | <b>533,442</b>  |
| <b>At 31 December 2011</b>                       |                |                |                  |                  |               |                 |
| <b>Assets</b>                                    |                |                |                  |                  |               |                 |
| Cash and cash equivalents                        | 6,209          | 555            | 243              | 672              | 42            | 7,721           |
| Investments at fair value through profit or loss | 14,674         | -              | -                | 2,663            | 2,092         | 19,429          |
| Receivables and other debit balances             | 18,438         | 162            | 3,847            | 911              | 1,444         | 24,802          |
| Loans receivable                                 | 4,576          | -              | -                | -                | -             | 4,576           |
| Due from related parties                         | 3,374          | 449            | 1,071            | 522              | -             | 5,416           |
| Trading properties                               | 5,684          | -              | -                | -                | -             | 5,684           |
| Available for sale investments                   | 23,615         | 2,490          | 562              | 1,712            | 13,547        | 41,926          |
| Investment properties                            | 19,099         | 3,620          | 533              | 8,982            | -             | 32,234          |
| Investment in associated companies               | 34,486         | 12,126         | 13,880           | -                | -             | 60,492          |
| Goodwill   | 47,015         | 1,664          | -                | -                | -             | 48,679          |
| Properties under development                     | 118,660        | 19,486         | 8,919            | -                | -             | 147,065         |
| Capital work in progress                         | 103,681        | -              | -                | -                | -             | 103,681         |
| Property, plant and equipment                    | 12,871         | 270            | 17,375           | 3,891            | 3,799         | 38,206          |
| <b>Total assets</b>                              | <b>412,382</b> | <b>40,822</b>  | <b>46,430</b>    | <b>19,353</b>    | <b>20,924</b> | <b>539,911</b>  |

## Notes to the consolidated financial statements (continued)

### 44 Risk management objectives and policies (continued)

#### 44.4 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial assets and liabilities.

|  | Up to<br>1month<br>KD '000 | 1-3<br>months<br>KD'000 | 3-12<br>months<br>KD '000 | Over<br>1year<br>KD '000 | Total<br>KD '000 |
|--|----------------------------|-------------------------|---------------------------|--------------------------|------------------|
| <b>At 31 December 2012</b>                       |                            |                         |                           |                          |                  |
| <b>Assets</b>                                    |                            |                         |                           |                          |                  |
| Cash and cash equivalents                        | 14,666                     | -                       | 230                       | -                        | 14,896           |
| Investments at fair value through profit or loss | -                          | 5,999                   | -                         | -                        | 5,999            |
| Receivables and other debit balances             | -                          | -                       | 23,202                    | -                        | 23,202           |
| Loans receivable                                 | -                          | -                       | -                         | 3,395                    | 3,395            |
| Due from related parties                         | -                          | -                       | 4,741                     | -                        | 4,741            |
| Trading properties                               | -                          | -                       | 5,466                     | -                        | 5,466            |
| Asset classified as held for sale                | -                          | -                       | 8,016                     | -                        | 8,016            |
| Available for sale investments                   | -                          | -                       | -                         | 45,250                   | 45,250           |
| Investment properties                            | -                          | -                       | -                         | 30,464                   | 30,464           |
| Investment in associated companies               | -                          | -                       | -                         | 37,193                   | 37,193           |
| Goodwill   | -                          | -                       | -                         | 48,678                   | 48,678           |
| Properties under development                     | -                          | -                       | -                         | 150,273                  | 150,273          |
| Capital work in progress                         | -                          | -                       | -                         | 122,156                  | 122,156          |
| Property, plant and equipment                    | -                          | -                       | -                         | 33,713                   | 33,713           |
| <b>Total assets</b>                              | <b>14,666</b>              | <b>5,999</b>            | <b>41,655</b>             | <b>471,122</b>           | <b>533,442</b>   |
| <b>Liabilities</b>                               |                            |                         |                           |                          |                  |
| Payables and other credit balances               | -                          | -                       | 49,804                    | 22,894                   | 72,698           |
| Due to related parties                           | -                          | -                       | 15,775                    | -                        | 15,775           |
| Term loan from a related party                   | -                          | -                       | 9,944                     | -                        | 9,944            |
| Borrowings                                       | 134                        | -                       | 29,532                    | 162,410                  | 192,076          |
| Advances received from customers                 | -                          | -                       | -                         | 140,030                  | 140,030          |
| <b>Total liabilities</b>                         | <b>134</b>                 | <b>-</b>                | <b>105,055</b>            | <b>325,334</b>           | <b>430,523</b>   |
| <b>At 31 December 2011</b>                       |                            |                         |                           |                          |                  |
| <b>Assets</b>                                    |                            |                         |                           |                          |                  |
| Cash and cash equivalents                        | 6,795                      | -                       | 926                       | -                        | 7,721            |
| Investments at fair value through profit or loss | -                          | 19,429                  | -                         | -                        | 19,429           |
| Receivables and other debit balances             | -                          | -                       | 24,802                    | -                        | 24,802           |
| Loans receivable                                 | -                          | -                       | -                         | 4,576                    | 4,576            |
| Due from related parties                         | -                          | -                       | 5,416                     | -                        | 5,416            |
| Trading properties                               | -                          | -                       | 5,684                     | -                        | 5,684            |
| Available for sale investments                   | -                          | -                       | -                         | 41,926                   | 41,926           |
| Investment properties                            | -                          | -                       | -                         | 32,234                   | 32,234           |
| Investment in associated companies               | -                          | -                       | -                         | 60,492                   | 60,492           |
| Goodwill   | -                          | -                       | -                         | 48,679                   | 48,679           |
| Properties under development                     | -                          | -                       | -                         | 147,065                  | 147,065          |
| Capital work in progress                         | -                          | -                       | -                         | 103,681                  | 103,681          |
| Property, plant and equipment                    | -                          | -                       | -                         | 38,206                   | 38,206           |
| <b>Total assets</b>                              | <b>6,795</b>               | <b>19,429</b>           | <b>36,828</b>             | <b>476,859</b>           | <b>539,911</b>   |
| <b>Liabilities</b>                               |                            |                         |                           |                          |                  |
| Payables and other credit balances               | -                          | -                       | 58,281                    | 24,987                   | 83,268           |
| Due to related parties                           | -                          | -                       | 4,088                     | -                        | 4,088            |
| Term loan from a related party                   | -                          | -                       | 11,663                    | -                        | 11,663           |
| Borrowings                                       | 133                        | 5,726                   | 52,866                    | 128,443                  | 187,168          |
| Advances received from customers                 | -                          | -                       | -                         | 131,671                  | 131,671          |
| <b>Total liabilities</b>                         | <b>133</b>                 | <b>5,726</b>            | <b>126,898</b>            | <b>285,101</b>           | <b>417,858</b>   |

## Notes to the consolidated financial statements (continued)

### 45 Capital management objectives

The group's capital management objectives are to ensure the group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

The group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the group consists of the following:

#### 45.1 Gearing ratio

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

|                           | 31 Dec.<br>2012<br>KD | 31 Dec.<br>2011<br>KD |
|---------------------------|-----------------------|-----------------------|
| Debt (a)                  | 202,019,492           | 188,887,736           |
| Cash and cash equivalents | (14,896,081)          | (7,721,094)           |
| Net debt                  | 187,123,411           | 181,166,642           |
| Equity (b)                | 102,918,679           | 122,052,825           |
| Net debt to equity ratio  | 182%                  | 148%                  |

(a) Debt is defined as long and short term borrowings .

(b) Equity includes all capital and reserves of the group.

#### 45.2 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 5 to the consolidated financial statements.

#### 45.3 Categories of financial instruments

The carrying amounts of the group's financial assets and liabilities as stated in the consolidated statement of financial position may also be categorised as follows:

|  | 31 Dec. 2012         |                             | 31 Dec. 2011         |                             |
|--|----------------------|-----------------------------|----------------------|-----------------------------|
|  | Fair value<br>KD'000 | Carrying<br>value<br>KD'000 | Fair value<br>KD'000 | Carrying<br>value<br>KD'000 |
| <b>Financial assets</b>                          |                      |                             |                      |                             |
| Cash and cash equivalents                        | -                    | 14,896                      | -                    | 7,721                       |
| Investments at fair value through profit or loss | 5,749                | 251                         | 18,547               | 881                         |
| Receivables and other debt balances              | -                    | 23,202                      | -                    | 24,802                      |
| Loans receivable                                 | -                    | 3,395                       | -                    | 4,576                       |
| Due from related parties                         | -                    | 4,741                       | -                    | 5,416                       |
| Available for sale investments                   | 33,165               | 12,085                      | 25,378               | 16,548                      |
|  | 38,914               | 58,570                      | 43,925               | 59,944                      |
| <b>Financial liabilities</b>                     |                      |                             |                      |                             |
| Payables and other credit balances               | -                    | 72,698                      | -                    | 83,268                      |
| Due to related parties                           | -                    | 15,775                      | -                    | 4,088                       |
| Term loan from a related party                   | -                    | 9,944                       | -                    | 11,663                      |
| Borrowings                                       | -                    | 192,076                     | -                    | 187,168                     |
| Advances received from customers                 | -                    | 140,030                     | -                    | 131,671                     |
|  | -                    | 430,523                     | -                    | 417,858                     |

Management believes that the carrying values of the financial instruments approximate their fair values.



## Notes to the consolidated financial statements (continued)

### 45 Capital management objectives (continued)

#### 45.4 Financial instruments measured at fair value

The following table presents financial assets and liabilities measured at fair value in the consolidated statement of financial position in accordance with the fair value hierarchy.

This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

31 December 2012

|   | Note  | Level 1<br>KD '000 | Level 2<br>KD '000 | Level 3<br>KD '000 | Total<br>KD '000 |
|---|-------|--------------------|--------------------|--------------------|------------------|
| <b>Assets:</b>  |       |                    |                    |                    |                  |
| <b>Investments at fair value through profit or loss</b> |       |                    |                    |                    |                  |
| <i>Investments held for trading:</i>                    |       |                    |                    |                    |                  |
| Local:  |       |                    |                    |                    |                  |
| Quoted securities and managed funds                     | a + b | 1,865              | -                  | -                  | 1,865            |
| Foreign:  |       |                    |                    |                    |                  |
| Quoted securities                                       | a     | 3,884              | -                  | -                  | 3,884            |
| <b>Financial assets available for sale</b>              |       |                    |                    |                    |                  |
| Quoted securities                                       | a     | 3,922              | -                  | -                  | 3,922            |
| Managed funds   | b     | -                  | 1,307              | -                  | 1,307            |
| Unquoted securities                                     | c     | -                  | -                  | 27,936             | 27,936           |
|   |       | 9,671              | 1,307              | 27,936             | 38,914           |
| <b>Liabilities</b>                                      | d     | -                  | -                  | -                  | -                |
| <b>Net fair value</b>                                   |       | 9,671              | 1,307              | 27,936             | 38,914           |

## Notes to the consolidated financial statements (continued)

### 45 Capital management objectives (continued)

#### 45.4 Financial instruments measured at fair value (continued)

31 December 2011

|   | Note  | Level 1<br>KD '000 | Level 2<br>KD '000 | Level 3<br>KD '000 | Total<br>KD '000 |
|---|-------|--------------------|--------------------|--------------------|------------------|
| <b>Assets:</b>  |       |                    |                    |                    |                  |
| <b>Investments at fair value through profit or loss</b> |       |                    |                    |                    |                  |
| <i>Investments held for trading</i>                     |       |                    |                    |                    |                  |
| Local:  |       |                    |                    |                    |                  |
| Quoted securities and managed funds                     | a + b | 13,257             | 502                | -                  | 13,759           |
| Foreign:  |       |                    |                    |                    |                  |
| Quoted securities                                       | a     | 4,788              | -                  | -                  | 4,788            |
| <b>Financial assets available for sale</b>              |       |                    |                    |                    |                  |
| Quoted securities                                       | a     | 3,637              | -                  | -                  | 3,637            |
| Managed funds   | b     | -                  | 1,473              | -                  | 1,473            |
| Unquoted securities                                     | c     | -                  | -                  | 20,268             | 20,268           |
|   |       | 21,682             | 1,975              | 20,268             | 43,925           |
| <b>Liabilities</b>                                      | d     | -                  | -                  | -                  | -                |
| <b>Net fair value</b>                                   |       | 21,682             | 1,975              | 20,268             | 43,925           |

There have been no significant transfers between level 1 and 2 during the reporting year

#### Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

#### a) Quoted securities

All the listed equity securities are publicly traded in stock exchanges. Fair values have been determined by reference to their quoted bid prices at the reporting date.

#### b) Managed funds

The underlying investments of local managed funds primarily comprise of local quoted securities whose fair values has been determined by reference to their quoted bid prices at the reporting date.

#### c) Unquoted securities

The consolidated financial statements include holdings in unlisted securities which are measured at fair value. Fair value is estimated using various models like discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates.

#### d) Financial liabilities

The group does not have any financial liabilities at fair value.

#### Level 3 fair value measurements

The group's financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

## Notes to the consolidated financial statements (continued)

### 45 Capital management objectives (continued)

#### 45.4 Financial instruments measured at fair value (continued)

##### Level 3 fair value measurements (continued)

|                               | 31 Dec. 2012  |   |                 | 31 Dec. 2011  |   |                 |
|-------------------------------|---|---|-----------------|---|---|-----------------|
|                               | Investments at fair value through profit or loss<br>Unquoted securities<br>KD'000 | Available for sale investments<br>Unquoted securities<br>KD'000 | Total<br>KD'000 | Investments at fair value through profit or loss<br>Unquoted securities<br>KD'000 | Available for sale investments<br>Unquoted securities<br>KD'000 | Total<br>KD'000 |
| Opening balance               | -   | 20,268  | 20,268          | -   | 22,008  | 22,008          |
| Gains or losses recognised in |   |   |                 |   |   |                 |
| - Other comprehensive loss    | -   | 7,933   | 7,933           | -   | (2,374)   | (2,374)         |
| Purchases                     | -   | 138   | 138             | -   | 1,023   | 1,023           |
| Sales                         | -   | (403)   | (403)           | -   | (389)   | (389)           |
| Closing balance               | -   | 27,936  | 27,936          | -   | 20,268  | 20,268          |

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognised in consolidated statement of income, total assets or total liabilities or total equity.

### 46 Comparative figures

Certain comparative figures have been reclassified to conform with the presentation of the financial information of the current year. Such reclassification did not affect the consolidated financial information related to net assets, equity, and operation results for the previous year. Also it did not affect the net decrease in cash and cash equivalents for that year.